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**THE ECONOMICS
OF INHERITANCE**

BY

JOSIAH WEDGWOOD

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JOSIAH WEDGWOOD

PUBLISHER'S NOTE

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To
R. H. TAWNEY

INTRODUCTION TO PELICAN EDITION

THIS book was written ten years ago as a thesis in what may be called liberal economics. From the standpoint of the general reader of to-day, the method of approach has certain inevitable drawbacks, but one advantage. The first *disadvantage* is (as I pointed out in the original preface), that it involves laborious technicalities which only students of economics will take in their stride. The second is that we are to-day, more than ten years ago, inclined to doubt if it was ever wise to permit the elevation of "political economy" to the status of a self-governing dominion in the empire of what once used to be called "moral philosophy."

The *advantage* is that, in the new age of uncharitable faiths, the liberal economic method remains dispassionate and agnostic—agnostic in all but one respect. Those who employ that method need not affirm a wholesale belief in utilitarian philosophy; but they must not throw away the baby with the bath water. They must accept (in theory at least) the idea, inherent in all the great philosophies and not least in the ethics of Christianity, that the welfare of all human beings, irrespective of race, class, creed, or colour, is of equal importance in the sight of God and should be in the minds of men. Ten years ago it was not absurd optimism to assume that that belief formed a common basis underlying free discussion of social problems. An age seems to have passed since then. But anyone who takes the trouble to do any research on social and economic questions must still try to believe with Plato and the Stoics that "no soul wilfully misses truth."

This book is primarily a study—from a technical economic angle—of the influence of inheritance on the distribution of wealth, and of the modifications which different laws and systems of taxation can make. Conditions in other countries have been briefly compared in three chapters. But, in the main, the facts and arguments relate to Britain.

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Although the statistics of the distribution of property and income are at least thirteen years old, more recent calculations, where they are available, do not show markedly different results, at least as regards this country. Nor would one expect them to; for, except under conditions amounting to rapid social revolution, the general picture of riches and poverty changes but slowly. For example, even after the upheaval of the last war, the degree of inequality in the distribution of property in England had not greatly altered in twelve years. (See Table IV in the Appendix to Chapter I.) Also, we know from experience in public health services and education that it takes a generation before the resolute use of democratic machinery can show a clearly marked change in the condition of the people.

The sample investigation into the fortunes of parents and children (recorded in Chapter VI) would have been easier to make and more definite in its results had it been made in 1938 rather than in 1926—for technical reasons connected with Somerset House records. If anyone endures the ordeal of making such an investigation up to date, I should expect to see the proportion of inherited wealth somewhat reduced, because (as noted in Chapters IV and V) war, unsettled economic conditions, and especially inflation, combined with the relatively high rates of Estate Duty during the past twenty years, must reduce the economic influence of inheritance. But I should not alter my general conclusion that in the “pluto-democracies” (as also, I believe, in Signor Mussolini’s Italy) “unequal inheritances remain a most important factor in shaping the distribution of wealth.”

There are, however, other conclusions to which, if I were writing to-day, I should naturally give more emphasis than this book gives. For instance, it is clear to-day that over a large part of Europe the expropriation of minority races, classes, and heretics, has violently reduced the economic importance of inheritance, and that even in modern times force, fraud, and sycophancy can rival industry and thrift as factors in the acquisition of wealth.

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Again, the social aspects of inherited wealth appear to-day in a new light; and the divergent views of Plato and of Bertrand Russell (quoted in Chapter VIII, § 13) could with advantage be debated at more length. In a world dominated by "self-made" dictators, we tend to look back with regret to government by a hereditary oligarchy; and we know—now that we do not possess them—the value of those statesmen, like Harcourt, Gladstone, and Campbell-Bannerman, who inherited, along with their material fortunes, traditions of beneficence and a scorn of tyranny. But, in the searching light of recent events, can we say that Russell was wrong when he ascribed to the existence of a leisured class of inactive inheritors a timidity of thought which infects the cultural life of the society that surrounds it? And is not this timidity of thought about social problems one of the chief weaknesses that betrays democracy to dictatorship?

If this book were a tract for the times I should wish to add to my remarks (in Chapter VIII, § 1), concerning the hereditary transmission of riches and poverty, the nineteen-centuries-old warning about the danger of putting new wine into old bottles. Political democracies that do not democratise their economic systems are inherently unstable.

Last, but not least, I should not refrain from emphasising (more than I have done in Chapter I, § 6 and § 13) that strictly economic considerations and motives are much less important in people's lives than the writings of many economists would lead one to suppose. We see now more clearly how dangerous it is to neglect the fact that love of power is a more potent force both for good and evil than the desire for material possessions; and that, once the struggle for bare existence is over, a sense of personal importance to the world, a sense of fellowship, and a sense of freedom provide in the factory and workshop, as well as in the office and library, the most powerful incentives to productive effort.

But the book was not written as a tract for these times, and the reader must forgive these omissions. He or she must also pardon the references in the book to now almost forgotten

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writers, like the Italian liberal Rignano, or the German Jew, Walther Rathenau, whose services a saner Germany will one day remember and reward, not by honouring his assassin, but by bringing to pass some of the "Things to Come" which he desired.

If some of the book is inevitably "dated," and if much of it is inevitably technical and specialised, it may none the less continue to serve a useful purpose as a contribution to the dispassionate study of problems which democracies must still face up to, if and when they recover their courage and their confidence. A greater degree of economic equality will be found essential to the preservation of political liberty, and the former will also be found worthless without the latter. The plain lessons of this generation are that liberty, equality, and fraternity—the trinity of the democratic faith—must march in line together if human happiness is our goal and the democratic approach to it is to survive.

November, 1938.

PREFACE

THIS book is the outcome of a two years' study, made under the wing of the London School of Economics in 1926-8. As the title implies, I have treated my subject almost exclusively from the angle of the economist, and have followed the academic method of endeavouring to give solid support to my conclusions by examining the pertinent facts within my reach, and by reasoning from them and from generally accepted premises. The method must involve laborious technicalities that cannot be tempting to the general reader, but it has its merits, particularly in dealing with questions that cannot fail to arouse our prejudices, if not our passions.

The rough plan of the book is as follows. The first introductory chapter gives my reasons for thinking that, from the economic standpoint alone, a more equal distribution of wealth is at least as important an aim as an increase of production, and that the two objectives do not necessarily lie in opposite directions. Chapters II to IV deal with the ways in which the inheritance of property aggravates and perpetuates inequality both of "earned" and "unearned" incomes, and the modifying effect on its influence of different laws of inheritance and of varying social and economic conditions.

Chapters V to VII are mainly statistical and are concerned with a question of fact, namely, how far inequality of wealth, particularly in modern Britain, is due to unequal inheritances. In putting forward the opinion that the institution of Inheritance is a more important factor in unequal distribution than is often supposed, I think I have been careful not to overstrain the available evidence, and to emphasise that the inheritance of property itself is only one of the economic causes of hereditary differences in wealth and economic status.

The next main section of the book discusses the influence of our system of inheritance on the production of wealth, and supports the opinion that the power to bequeath and receive

PREFACE

large inheritances does not constitute an essential stimulus to productive effort and to the increase of the world's material equipment, and that it works to a certain degree as a stimulus in the opposite direction.

The last portion of the book is concerned with criticisms and suggestions relating to the British Death Duties, which are here viewed rather as a potential engine for eliminating the large inheritor than as a device for raising revenue.

The author's acknowledgments are due particularly to the following: to Dr. Hugh Dalton, M.P., not only for his generous and sympathetic guidance of my studies at the London School of Economics, but also because his book on the *Inequality of Incomes* inspired a good many of my thoughts and researches, and is the best book of reference and criticism I know on the economic literature of the Distribution question; to Section F of the British Association for a grant towards expenses of the research work of which the results are given in Chapter VI; to the Registrar-General and the staff of his department for facilitating those researches by supplying essential information gleaned from Birth and Death Certificates; to Mr. A. Beck of the Statistical Department, Inland Revenue, and Mr. H. C. Scott of the Estate Duty Office, for expert advice on the statistics and the administrative aspects of taxation; and to the London School of Economics and its Librarian for arranging the publication of this book. This by no means completes the tale of my indebtedness, for there are a number of friends who have helped me in one way or another—above all, my wife, who has made this research work possible, and who has acted from time to time as secretary and literary critic. My debt to Mr. R. H. Tawney I have endeavoured to acknowledge somewhat inadequately by dedicating this book to him.

November, 1928.

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PART I

CHAPTER I

THE RELATIVE IMPORTANCE OF INEQUALITY p. 29

INTRODUCTORY. § 1. Inequality of wealth is now recognised as an economic defect of the social system. § 2. But the force of this recognition is largely offset by the theory, based on statistics of the National Income, that more equal distribution is comparatively unimportant as compared with an increase in production. § 3. The statistical estimates employed in support of the theory are open to criticism, particularly the estimates of "Savings" necessary to provide an adequate supply of capital. § 4. The extent of inequality in the distribution of wealth must be gauged not merely by the figures of income distribution, but also by the distribution of capital; because "unearned" income is worth more than "earned" income of the same amount. Inequality of capital wealth is much greater than inequality of earned incomes. § 5. In estimating the benefit to be derived from a so-called redistribution of income, one must take into account the nature of the uses from which the redistributed income is taken, and of those to which it is put. But the assumption, underlying statistical calculations of what is available for redistribution, that the monetary value of the aggregate income will remain constant, is not theoretically impossible. § 6. A man's material welfare depends to some extent on the relative as well as the absolute size of his income. Under conditions of industrial progress combined with great inequality in distribution, a continually increasing amount of income is necessary in order to produce the same degree of material welfare. § 7. Apart from the statistics of the question, and their limitations, the usual economic *apologia* for the present inequality of distribution depends on the assumption that it is favourable to the growth of production, and that interference designed to reduce inequality is bound to reduce also the amount to be distributed. Two possible grounds for this assumption to be examined. § 8. Is unequal distribution necessary in order to secure an adequate supply of fresh capital? It is probable that a really drastic reduction of inequality at the present level of production would lead to a reduction of private savings. § 9. Alternatives to Private Sav-

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§ 15. A rise in the incomes of the poorer classes, resulting from equalitarian measures, is not likely to lead to a rapid increase in their families—rather the reverse. § 16. Nor will a more equal distribution of incomes necessarily lead to a larger proportion of the people being unemployed. In so far as it resulted in a shifting of demand from luxuries to necessities and from capital goods to consumable goods, it would reduce trade fluctuations. And if the transfer from rich to poor took the form of better general education, the mobility of labour between different trades would be increased.

§ 17. Summary of conclusions in §§ 8 to 16. The present inequality of incomes is, on the whole, more favourable to the growth of capital than a more equal distribution would be, but less favourable to the growth of human efficiency. The idea that nothing should be done which might check the supply of savings is simply fetishism. Probably our community could achieve a higher standard of productivity and certainly of happiness, if, even at the risk of a substantial decline in capital accumulation, it devoted more of its resources to improving the environment and quality of its people.

§ 18. There remains to be examined the argument that certain

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institutions, that are desirable in the interests of productivity, inevitably create as a by-product great inequalities of income. In order to settle the question decisively we need to analyse the causes of unequal distribution, and to decide which factors are the most important and which can be modified or eliminated without directly or indirectly checking productive effort. This book aims at contributing to such an analysis by selecting one particular factor—Inheritance—and endeavouring to answer the following main questions about it: In what ways and to what extent does it cause inequality? Is the institution in its present form desirable in the interests of productivity? If not, how should it be modified?

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§ 1. If it is to be an adequate guide to public opinion and policy with regard to distribution, economic analysis must provide an answer to three questions: (1) What are the causes of inequality of wealth? (2) How far is each cause inevitable, or desirable from other points of view? (3) What is the comparative importance of each cause? The three main causes of inequality of wealth are: unequal economic abilities, unequal inheritances and gifts of property, and unequal luck. § 2. Divergence of opinion among economists as to the comparative importance of the second cause—unequal inheritances and gifts. § 3. Inheritance cannot be an original or primary cause of unequal distribution, but it perpetuates and may intensify inequalities of wealth arising originally from other causes. The actual extent of its influence on distribution can only be decided by quantitative analysis of the relevant facts. § 4. Unequal inheritances affect the distribution of property not only directly but also indirectly, by causing unequal ability to accumulate by saving and speculation. § 5. Their effect on the distribution of earned incomes is obviously much less than that on the distribution of property, and is much less important than the effect of the other hereditary economic advantages of birth and environment. But a large inheritance, though it diminishes the need for a large earned income, is undoubtedly an asset in securing one. § 6. A good deal depends, however, on whether the inheritance is in the form of investments requiring no active management, or in the form of a director's or partner's share in a business. The latter form of inheritance, both of property and of opportunity, is clearly more of an incentive to the exercise of energy and ability on the part of the inheritor. The age at which the inheritance is received

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§ 8. The influence of inheritance on the distribution of wealth must vary in different countries and at different periods, according to (1) the laws and customs governing inheritance and bequest; (2) systems of taxation; (3) the extent of philanthropic bequests; (4) marriage customs; (5) the size of families; (6) the degree of stability of economic and political conditions. Factors (1), (3), (4), (5), (6), are discussed in the next Chapter, and (2)—Taxation—is reserved for Chapters IX, X, and XI.

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in the United States than in Europe or Britain (though probably on a less munificent scale than a generation ago). But in America less respect is paid to hereditary wealth, and there is also a greater dependence on voluntary contributions, rather than on taxation, for the relief of poverty and for social services. In general, however, taxation has been, and is likely to be, a more effective method of redressing inequalities of wealth than private munificence.

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§ 2. Stability in prices, and in economic and social conditions generally, favours the influence of inheritance. But the depreciation of money does not of necessity harm inherited fortunes more than other sorts of fortunes, since the former are not necessarily left fixed in old and depreciating investments. Moreover, the chief form of settled property is land, and land has been historically the safest investment when money is depreciating. Nevertheless, rapid changes in the value of money increase the importance of chance and speculation as factors in the distribution of wealth, and reduce that of inheritance. And, under such circumstances, the large inheritor, when divorced from active business, is often likely to fail to safeguard his inheritance.

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the "National Capital" over the period may be considered as representing the net additions to capital made by the generation in question. On this hypothesis, and when Giffen's valuation of the "National Capital" is made comparable with Sir Josiah Stamp's estimate for 1914, the relative proportions of the total due to Inheritance and "Saving" work out at *two-thirds* and *one-third* respectively. § 5. An estimate obtained by a different method makes the proportions 58 per cent. and 42 per cent. respectively.

§ 6. There has been no historical tendency in Britain for the proportion due to inheritance to increase. Probably, two or three hundred years ago, inherited property formed a larger proportion of the whole than to-day, but it was a rather smaller proportion in the 1880's than in 1913. Although on balance there was little or no real saving during the War epoch, inherited wealth forms on the average a smaller proportion of private property than before the War—the decline in its importance being more marked in Central Europe than in Britain.

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§ 4. Other observations from the statistics are: (i) that the average estate of all classes within the richest tenth of the people increases up to the most advanced age but at a much slower rate after sixty or so, while, after that age, among the poorer classes, actual decumulation can be observed. The reasons not far to seek. (ii) that probably there is, on the whole, no marked difference as between large and moderate estates in the proportion derived from inheritance and gift, among persons of the same age; but the

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PART I

CHAPTER I

THE RELATIVE IMPORTANCE OF INEQUALITY

§ 1. ALL established institutions are likely, within the present century, to have to justify themselves afresh in the eyes of the modern world—above all those institutions which shape our economic life. The inheritance of property—long neglected by professional economists or accepted unconsciously and without question as an inevitable ingredient in orderly society—has recently begun to receive its fair share of criticism and doubt. It is the aim of this book to consider how far, if at all, the systems of inheritance, which prevail in modern states, perform a function which can be justified from the economic point of view.

In passing judgment upon the value of an institution, as a factor in material welfare, its effects both on production and on the distribution of the product must be examined. It is a common view of our system of inheritance that its effects on the former are good but on the latter bad. Hence it is as well to consider at the outset what degree of importance should be attached to the claims of distribution, on the one hand, and of production, on the other, and to observe in what general respects those claims are likely to be conflicting or harmonious. Consequently I make no apology for devoting this first introductory chapter to a brief discussion of this question. Throughout I have confined myself to purely economic considerations.

During the last fifty years there has been a marked change in the attitude of economists towards questions of distribution.¹

¹ For a brilliant and concise review of the attitude of past and present economists towards the subject-matter of their science, see

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The significance of the change is hardly yet fully realised, but it is implicit in the more liberal interpretation of "wealth" as the subject-matter of economic science. Eighteenth-century writers before Adam Smith had considered the wealth of a nation as its stock of material goods, when they did not fall into the worse error of thinking it to be its gold and silver. Adam Smith defined it rather as the material goods annually produced. Income in the form of "services" was allowed to be wealth by later writers in the early nineteenth century. But during the hundred years which followed the *Wealth of Nations*, the orthodox economists, when they spoke as economists and not as social philosophers, threw the whole emphasis on the quantity of goods and services produced, and considered as a non-economic question the satisfactions engendered by those goods and services. Certainly to the traders and manufacturers who formed the chief audience of the economists, production appeared as an end in itself.

The introduction of Jevons' theory of value, with its emphasis on "utility," marked a turning-point in the trend of economic thought. Since that time, it has become increasingly obvious that economic analysis, to be adequate, must look beyond the actual commodities and services received to the satisfaction or enjoyment derived from them. In recent years the scope of economic science has been consciously enlarged so as to treat of the "wealth" of a state as the material welfare of its inhabitants—a psychological concept—rather than the tangible objects and measurable services produced by them.¹

Cannan's *Wealth*, Chapter I, where he concludes: "The subject-matter of economics has become utility or satisfaction *minus* disutility or dissatisfaction, so that if we retain 'wealth' as its compendious description, we must take 'wealth' as having reverted to its old meaning of a particular state or condition of human beings" (p. 13). See also earlier papers by the same author reprinted in *The Economic Outlook* (1912). In a paper read to the Fabian Society in 1889, he had pursued the same lines of criticism of the old conception of "wealth," and the "classical" treatment of "Distribution."

¹ See footnote on previous page.

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With this definition in the background, the full implications of the theory of the diminishing utility of successive additions to income are realised, and it becomes obvious that great inequalities in the division of the product of industry among the individuals concerned are not only socially deplorable but an *economic* defect in the social system.¹

It would probably never have been seriously disputed that an extra £ gives more satisfaction to a man with £100 a year than to one with £1,000 a year, but when the statement was elaborated as a fundamental proposition in economics, it had all the force of a revolutionary idea.²

¹ Cp. Cannan, *Economic Outlook*, p. 178, from a paper read to British Association in 1902. "Moralists and Statesmen have long seen the evils of great inequality of wealth, and now, thanks to modern discoveries in economic theory, the economist is able to explain that it is wasteful." Henry Sidgwick was one of the first economists to state this conclusion clearly and definitely in his *Principles* in 1883, in the section devoted to the "Art of Political Economy." But he derives the conclusion from Bentham rather than Jevons. In Chapter VII, Bk. III, he wrote: "The more any society approximates to equality in the distribution of wealth among its members, the greater on the whole is the aggregate of satisfactions which the society in question derives from the wealth that it possesses." But he is careful to add that "this inference is only legitimate under certain conditions, viz. that the total amount of produce to be divided and the number of persons among whom it is to be divided remain unaffected by the change in distribution; and, further, that the change has no tendency to diminish the happiness of the community so far as it is derived from other sources."

² The actual extent of the loss of material welfare, resulting from a given inequality in the distribution of a given national income, is of course purely a matter of opinion. Bernouilli suggested that, in general, equal *proportionate* additions to income over and above a minimum of bare subsistence brought equal *absolute* increments of pleasure, while Cr mer supposed that the pleasure derived from income varied as its square root. (See note in Marshall: *Principles*, p. 135.) For either of these propositions to be reasonable, we have not only to think in terms of average families with average needs, but also to suppose that the trouble involved in getting a given income is the same in each case—thus neglecting the obvious distinction between "earned" and "un-

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§ 2. It is now indeed frankly recognised that the "wealth" of a community depends not only on the total product per head, but also on two other factors, namely the amount of unpleasant effort involved in achieving that total, and the way in which it is distributed among the individuals concerned. But there is still a tendency to consider problems of production as of paramount importance. Sidgwick's suggestion that we have to choose between an unequal distribution of wealth and an equal distribution of poverty still gains a wide measure of approval.¹ Such arguments have, in recent years, been reinforced by inferences drawn from statistics of the "National Income." Statistical calculations are now employed as a warning that there is, in fact, at present, so little surplus income to distribute that redistribution without increased production could, at best, do little good, and might, under circumstances unfavourable to production, do much harm; and that the cure for "social distress" is to be found rather by increasing the product and letting distribution look after itself, than by a more equal division of the present total. "In centring our teaching and our hopes upon the point of redistribution to pro-

earned" incomes. It is, however, interesting to note that, if we apply Bernouilli's theorem to the official table of the distribution of private incomes after payment of Income or Super-Tax in 1919-20; add an estimate of £100 a year per head of the thirteen million occupied persons below the Income-tax limit of £130; and assume the bare minimum of subsistence to be £60-£65 a year—the result is that the total amount of "pleasure" or "material welfare" derived from the aggregate of private tax-free incomes is only 77 per cent. of what it would have been if the incomes had been equally distributed. If the bare subsistence limit is put higher, the loss of welfare works out as a greater percentage and *vice versa*. There is no particular virtue in this calculation except as an indication that it is quite conceivable that a more even distribution of income, even if accompanied by a substantial reduction in the total, might still be of economic benefit. Marshall himself (*Principles*, p. 135) seems to have accepted Bernouilli's theorem as a working hypothesis.

¹ Sidgwick, *Principles*, Bk. III, pp. 505ff. "The objection to Socialism is not that it would divide the produce of industry badly but that it would have so much less to divide."

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duce greater well-being," says Sir Josiah Stamp, "we are 'barking up the wrong tree,' and diverting attention from the more real and powerful remedies. The economic millennium does not lie along the line of redistribution and equalising the present total. The effect of this course is a percentage addition to the lower level—which compares unfavourably with the automatic additions that came in two or three decades of industrial peace and progress in the Victorian era; or that would come from a substantial measure of disarmament—or that ordinarily results where piece-work is substituted for time-rates."¹

§ 3. Certainly the statistics of the question cannot be ignored if we are to see the problems of distribution in their proper perspective. But before accepting the inferences which are usually drawn from statistical results (such as those quoted above), we need to scrutinise both the figures themselves and the theoretical assumptions on which such inferences are in fact based. It is evident, for example, that one important assumption is that a more equal distribution of wealth is less favourable to production than the present inequalities. For, if we assume the contrary—namely that greater equality of wealth would be more favourable to the growth of productivity or would leave it entirely unimpaired—then there is no question of a contrast between alternatives but rather one of additional benefits. It is, in fact, quite commonly assumed, by those who use the statistical argument, that under conditions of much greater equality production per head would probably actually decline, and could not, at best, do more than remain stationary.

But before discussing the more far-reaching issue the statistical part of the argument requires examination. Sir J. C. Stamp's and Dr. Bowley's joint analysis of the National Income in 1924 does not, I think, give statistical confirmation to the former's earlier opinion quoted above.² Accepting the semi-official estimate of the National Savings as between £450

¹ *The Christian Ethic as an Economic Factor*, p. 44.

² Still less does it confirm the wilder generalisations of lesser authorities—e.g. Dean Inge in his *England*, having quoted some

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millions and £500 millions in that year,¹ they put the average amount "spent freely" on articles of current consumption as £270 a year per family,² while the average earnings per wage-earning family were about £190 a year "an unknown part of which went in taxes and rates." Hence—on the assumption, necessary for all calculations relating to redistribution, that the total monetary value of the measurable elements in the national income is not altered thereby—a complete pooling of the total, after making the same provision as at present for saving and for the public services, would add at least over 30s. a week of spendable income to the average earnings of a working-class family.

Thus, these figures, so far as they go, indicate that the truth lies somewhere about midway between the two extreme opinions, on the one hand, that our present productive capacity is sufficient to banish poverty if the shares in the total were equally distributed, and, on the other, that redistribution in itself could accomplish little or nothing, in the absence of a great increase in production.³ But the usual statistical treat-

estimates by Dr. Bowley relating to the National Income in 1911, says (p. 191): "It is thus *demonstrated* that, even if the National Income could be preserved intact after being pooled, *which it certainly could not, the skilled labourer would have nothing to gain by the operation, and a high standard of living for all alike is out of the question.*" (My italics.) Note that Dean Inge makes the common assumption, to which I have referred, that under conditions of much greater equality the productivity per head of the community must fall below its present level.

¹ See Colwyn Ctte. Rep. on Nat. Debt, etc., para. 45, p. 17.

² After deducting the estimated savings, rates, and taxes. The average "social income" per family—after deducting only duplicated elements in the aggregate of money incomes—was about £360 a year. One may question whether savings which add to the individual's property and security should be deducted from the distributable surplus, if a strictly fair impression is to be made on the mind of the layman. For the increased ability to save is one of the economic benefits which come with an addition to income.

³ Pigou, *Economics of Welfare*, p. 83, after citing Dr. Bowley's

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ment of the question has certain serious limitations, which, if disregarded, are likely to lead to a misconception of the relative importance of a more equal distribution.

§ 4. In the first place—"earned" and "unearned" incomes of whatever character are lumped together without distinction in arriving at the distributable total. Investment incomes, profits, annuities, and salaries of the same yearly amount, are treated as exactly equivalent, in reckoning the average income per head, the extent of inequality, and the possible addition to the lower incomes to be effected by redistribution. Consequently the incautious user of the statistical results is liable to forget that these different categories of income are not in fact equivalent. An income derived from secure investments is obviously worth a great deal more than the same income from work. In Sir Josiah Stamp's phrase, the latter stops when you stop¹; the former does not, and it continues to be enjoyed by your posterity. Again, the earned income involves a sacrifice of leisure and the performance of perhaps unpleasantly hard work; the investment incomes does not. Lastly, a wage or salary can rarely be capitalised in times of special need, such as illness (except by means of insurance payments), while income from property, unless the capital is "tied up," can within limits be increased at will, by selling or mortgaging part of the principal. Thus, in general, the possession of property confers on its owner a sense of security and independence, which are important elements in economic welfare. There is no need to elaborate the argument here. Everyone knows that a capital of £10,000 yielding interest at 5 per cent. is far more worth having than a job at £500 a year. This is still more obvious when it is remembered that, so far from the figures relating to the *pre-war* distribution of incomes in the United Kingdom, concludes that "when all qualifications have been made, the figures . . . leave no room for doubt that there was before the War a substantial excess income in the hands of the richer classes available, in Dr. Bowley's phrase, 'for attack' by way of transference. There is no reason to suppose that things are different now."

¹ See *Fundamental Principles of Taxation*, p. 83.

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two alternatives being mutually exclusive, the man with £10,000 worth of property stands a better chance of earning the extra £500 than the man with little or no capital.

Hence the extent of inequality in the distribution of wealth must be gauged not only by the figures relating to the distribution of incomes, but also by those of the distribution of capital.

It is a matter of common observation that property is much more unequally distributed than incomes, and investment incomes more than earned incomes. Calculations based on official statistics show that the section forming the richest tenth of the population¹ gets approximately *four-tenths* of the aggregate income from all sources, but nearly *nine-tenths* of the total income from property, and only about *one-quarter* of the "earned" income. (The word "earned" must here be interpreted in the Income-tax sense, to include private business profits and professional incomes, where no distinction can be made in practice between the parts derived from capital and from labour. Wages and salaries alone form a still smaller proportion of the total incomes of the richer classes.)² The richest 1 per cent. get over *one-fifth* of the total gross income, about *two-thirds* of the income from property, and only about 7 or 8 per cent. of the aggregate "earned" income. Income from property forms about 30 per cent. of the total aggregate income³: but in the case of super-tax payers with over £10,000 a year the proportion is over 70 per cent., in the case of incomes under £500 a year, little more than 5 per cent. Hence,

¹ Excluding wives and children not in industry.

² For the details of these estimates, see Appendix at end of Chapter.

³ See Bowley and Stamp, *National Income*, 1924, p. 52. If all pensions and employers' contributions to insurance funds are included in earned income, the proportion which the latter bore to the total aggregate income was estimated at 68 per cent. in 1911 and 71½ per cent. in 1924. Earned income is used here in the Income-tax sense and includes profits of private persons and firms employing their own capital. If interest on the latter were included in the share of Property, this would certainly be over 30 per cent.

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in a statistical examination of the effects of redistribution at the present level of production, we have to remember that an equal division of property would make very much more difference in levelling the economic status of individuals, and involve a much greater proportionate benefit for the classes below the average, than the equalisation of earnings. This is one reason why a fair impression of the significance of the figures is not obtained, when all incomes are lumped together as homogeneous and the surplus thus estimated as available for redistribution is treated as comparable with a similar sum gained by way of increase in wages.

§ 5. In the second place, if the figures are to have any real significance, one cannot leave out of account the means by which the supposed transfer is to be effected, and the form of the addition which is to be made to the poorer incomes. It is clear that the actual benefit which the community might derive from a so-called redistribution of income must be gauged not merely by the nominal value of the surplus transferred from rich to poor but also by the nature of the uses from which it is withdrawn and the nature of the uses to which it is put. The extent of the surplus actually available will also largely depend on the same factors. But the fuller implications of this statement remain to be discussed later.

It is sometimes implied that the statistical calculations with which we have been dealing are robbed of all utility because they depend on the assumption that it is possible for the monetary value of the aggregate income to remain constant throughout changes in its distribution.¹ But the assumption is not, theoretically, a complete impossibility. It involves the hypo-

¹ There cannot, of course, be a change in the distribution of a given national income of definite goods and services. But Prof. Pigou's definition of what he means by a change in the distribution of the "national dividend" seems to me satisfactory. "What I mean when I say that the distribution of the dividend has changed in favour of the poor is that, the general productive power of the community being given, poor people are getting more of the things they want at the expense of rich people getting less of the things they want." *Economics of Welfare*, p. 77.

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thesis, first, that the general level of prices would not alter, in spite of inevitable alterations in the prices of particular articles, and second, that the labour and capital now employed in supplying goods and services, which might under the new dispensation become superfluous, could be employed equally profitably in other ways. Those are not in themselves impossible hypotheses, when one is considering a change to greater equality of distribution which is sufficiently gradual for industry to adjust itself without much friction. The numbers and incomes of those who depend chiefly on the richer classes for their livelihood are certainly likely to diminish, but it is not impossible that the diminution in the monetary aggregate of their incomes should be counterbalanced by an increase in the number and remuneration of those supplying other services. Thus the common assumption that much of the money value of the surplus would necessarily disappear in the process of its redistribution is invalid.¹ We shall return to the wider aspects of this question.

§ 6. But there is another reason why we should not accept at its face value a comparison between the arithmetical result of equalising the present income of our society, and the actual

¹ Cp. Stamp, *British Incomes and Property*, p. 419. "Exchanges are going on between people upon one plane, for services at a valuation belonging to that plane, and never brought into comparison with values on a lower plane. If there were equal redistribution, that plane of values would not exist. . . . Probably the change concerns commodities only to a very small extent and *personal* services to a much larger extent. . . . If . . . we had a redistribution of existing capital wealth, socialistically, many services would alter in value; no physician would get differential fees for identical services. But it is a mistake to suppose that the only change would be a reduction of certain values and therefore a reduction in the aggregate. Certain services would rise in value because of the wider *effective* demand. . . . It is, however, as well to remember that we cannot divide up the aggregate and rearrange it to the same total. It is rather more like the cells of an organism. At the same time it is clearly possible to exaggerate the importance of this point, and the figures we have are sufficiently stable and homogeneous in component exchange values for all ordinary purposes."

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increase of incomes achieved during the last century under conditions of great inequality. It is that the actual degree of material welfare resulting from a given income depends, among other things, on the wants and needs realised by the recipient; and the material desires which the latter experiences and wishes to satisfy depend not only on the particular conditions of the individual, but largely on what he sees around him and the state of the civilisation in which he lives.

Material welfare has no significance except in its relation to men's feelings and as one element in the psychological state called happiness. And the extent of a man's happiness depends on the number and intensity of the desires which he is able to satisfy relative to the number and intensity of those which he is not able to satisfy. For this reason, certain religious teachers have striven to achieve happiness by eliminating all desires save those which they believed were capable of complete and permanent satisfaction. By contrast, in the search for material welfare, our modern civilisation under conditions of industrial progress is continually manufacturing new and previously unwanted sources of pleasure, so that the old luxuries become the new necessities, alike for those who can and those who cannot afford them. Hence, where there is a great inequality of purchasing power, a continuous increase in the statistical total of goods and services produced per head will no doubt enable a larger and larger proportion of the people to satisfy certain wants, but will, equally certainly, increase the number of wants which the majority desire to satisfy, and only the minority can. Thus a continually increasing amount of income becomes necessary in order to produce the same degree of material welfare.¹

¹ The fact that the satisfaction which a man gets from a given income depends to some extent on its *relative* as well as its *absolute* amount was recognised by J. S. Mill when he wrote: "Men do not desire to be *rich* but to be *richer* than other men." (Post-humous Essay on Social Freedom. Quoted in Pigou: *Economics of Welfare*, p. 79.) Probably this desire is often due, among men, not so much to covetousness or vanity as to the desire for the economic power which comes with a relatively large fortune. Ex-

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Though the amount of goods and services enjoyed by the poor man in 1924 may be enormously greater than those enjoyed by his predecessor in 1824, the former's poverty is probably little less tedious and unpleasant to him than an actually more grinding poverty was to the latter.

One cannot gauge the comparative effects on material welfare of an increase in the income of the poorer section of the people that results, in the one case from a redistribution at the present level of production, and in the other from an increase in production over a period of time with no change in relative distribution, merely by setting side by side the statistical estimates of the extent of the increase in the two cases. For, in the first place, the additional income to be gained by the poorer section is of a different character in the two cases, and, in the second place, the extent of its needs and desires cannot be taken as constant or independent of the scheme of distribution.

§ 7. So far, our criticisms have related to the limitation of statistical estimates as a guide to the importance of distribution, and were largely independent of our opinions as to the effect of distributive changes on production. Apart from such limitations, however, the validity of what may be called the statistical *apologia* for inequality depends on the assumption that the existing scheme of distribution is favourable to production, and that interference designed to reduce inequalities of wealth must necessarily cause the product per head to decline, or at any rate to be less than it would have been in the absence of such interference.¹ We have now to examine the grounds for such an assumption.

penditure on competitive display is perhaps more prevalent among women. In the latter case, it is no doubt true, as Rignano says, that "it is only the existence of great riches, which makes necessary for such satisfaction a very large, instead of a very small expenditure." (Quoted Pigou: *op. cit.*, p. 79.)

¹ If the assumption is valid, the existing scheme of distribution cannot be the best from the point of view of production, but ought to be still more unequal, since a good deal of interference by the State in an equalitarian direction already takes place.

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It is desirable to point out, first of all, that we ought to consider *productivity* or *productive power* rather than the actual product per head. For an increase in the latter may or may not be economically desirable, according to whether or not any additional "disutility"—such as a decrease in leisure—involved in achieving the increase is more than counterbalanced by the extra "utilities" produced. But an increase in the *capacity to produce*, enabling a society to get more per head with the same effort and trouble or the same amount with less effort and trouble, according to its preference, is obviously desirable from the economic point of view. I shall therefore consider the effect of distributive changes on "productivity" rather than on production.¹

The assumption in question can only be valid if either or both of the following propositions are true: (1) that the en-

¹ I use the word "productivity" rather than "productive power," because the latter term is sometimes used to denote capacity to produce with a given equipment, if every available producer and all available equipment could be fully employed; whereas by "productivity" I mean the capacity to produce at will, under the circumstances prevailing.

On the general question see Pigou (*Economics of Welfare*, p. 76, note) where he says: "It should be noticed that one of the things to which people will divert consumption, if distribution is altered in favour of the poor, is the quasi-commodity, leisure. . . . Leisure is not included as a commodity in my definition of the national dividend: and in so far, therefore, as improved distribution causes leisure to be substituted for things, it must involve a decrease in the national dividend. Plainly, however, *this sort of decrease should be ignored when we are considering the effect of changes of distribution on economic welfare; for the loss of welfare associated with the construction of production to which they lead is necessarily less than the gain of welfare due to the leisure itself.*" (My italics.) Sidgwick, however (*Principles*, Bk. III, Chap. VII, p. 520) seems to think that people tend to over-value leisure, and that therefore a voluntary reduction in output in order to increase leisure might in fact involve a reduction of economic welfare. But, unless we consider that there is some absolute measure of economic welfare, independent of the feelings of the individuals directly concerned, we must surely accept Pigou's rather than Sidgwick's opinion on the matter.

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vironment of great inequality (apart from its causes) is necessary for a high standard of productivity; (2) that the institutions necessary for a high level of productivity must inevitably produce also a high degree of inequality in distribution.¹

§ 8. The chief ground on which the first of these propositions is likely to be argued seriously is that, at the present level of production, a considerable degree of inequality is necessary in order to obtain an adequate supply of fresh capital. For the moment we will not question what constitutes an adequate or inadequate supply of capital, but will merely consider whether a great degree of equality necessarily involves a smaller supply.

In so far as the community depends for fresh capital on the savings of private individuals, it is certainly true that it is more likely to get a plentiful supply when incomes are very unevenly distributed. For the more unequal the distribution of incomes, the greater is likely to be the surplus over private expenditure. (The proposition is really a corollary of the theorem that the marginal utility of income diminishes as the income increases.)

It is, of course, conceivable that greater equality of distribution might be accompanied by an increase in certain motives for saving. The actual net effect on the incentive to save will depend almost entirely on the nature of the measures of redistribution employed. But, in any case, it is very unlikely that any additional incentive would be strong enough to counterbalance the effect of the shrinkage in the surplus private income of the richer classes, from which at present comes the bulk of private savings. A really drastic reduction of inequality at the present level of production is almost certain to lead to a reduction in the additions to capital supplied by private individuals.

¹ In order to illustrate the fact that there is a logical distinction between the two propositions, take, for example, the theory that men of genius spring from large families. In order to justify that theory, we might attempt to prove either or both of the propositions (1) that a large family is a necessary part of the environment for genius; (2) that the hereditary and other qualities in the parents which produce children of genius are necessarily allied to those which produce large families.

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§ 9. But it is not essential that the community should rely solely or even mainly on the savings of private individuals for additions to its capital. There are alternative sources of supply which are no longer merely of potential importance.

According to an estimate of the Board of Inland Revenue, the undistributed profits of companies and private concerns amounted in recent years to some £200 millions a year (after payment of Income Tax). They formed no less than 40 per cent. of the estimated total savings of the nation in 1924, and a still higher percentage of the savings devoted to British industry. Moreover, apart from their aggregate cash value, such corporate reserves are probably more productive of economic benefit to industry than the savings of private individuals. For in the case of private saving "there is no certainty that it will flow in the direction most desirable from an economic and industrial point of view; it may be wasted on unsound speculation, or, on the other hand, it may concentrate too much on gilt-edged stocks or on foreign and colonial securities. Industry may not get its proper share, or may have to direct a great deal of its energy in order to do so. On the other hand, when a company saves by retaining part of its profit, the operation is smooth and simple. In the case of a progressive business, the flow of capital is just in the place where it is required; it is at the growing-point of industry, enabling new needs and opportunities to be met without delay as and when they arise." Thus company reserves are "a form of saving, which is of special value to the community." (Colwyn Committee Report, para. 400, p. 149.)

Whatever the causes which may have brought this source of fresh capital to its present dimensions, its existence is not inevitably bound up with an unequal distribution of private incomes and property. The magnitude of such reserves depends on the magnitude of the profits made for organised business as a whole and on the policy of its directors. It is not necessary in order to achieve greater equality—though it might be desirable on other grounds—either to reduce the profits from which the reserves are made or to discourage the directors from their

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present policy. Under our present system of progressive taxation, corporate savings receive favoured treatment, in so far as they are not subject to super-tax.¹ More drastic taxation for equalitarian purposes might continue to differentiate in favour of genuine company reserves. Or the State might go further in its encouragement to industry to finance itself. Provision for fresh capital might be made a statutory business cost, additional to the allowance for depreciation which is now only intended to cover the replacement of worn-out and obsolete equipment. In such a case it would be better no doubt to make the allowance a percentage of net profits rather than of the value of existing equipment, in order to avoid encouraging investment in declining industries. Alternatively, it might be made compulsory for all businesses earning profits to set aside a minimum proportion for capital reserves. It is, at any rate, not impossible to devise safeguards against any diminution in this form of saving.

§ 10. The second alternative to private saving, as a source of fresh capital, is saving by governments out of public revenue. In spite of the notoriety which most governments have achieved as borrowers and spenders, rather than savers, the idea that the State should accept part of the responsibility for augmenting the stock of capital is not a novelty, even in this country. Our central and local governments already accept a share of that responsibility, in so far as they build roads, bridges, tramways, power stations, and other capital works, out of the proceeds of rates and taxes or out of the profits of their

¹ Under the Finance Act, 1927 (§ 31), however, companies putting to reserve an unusually large proportion of profits are liable to have these "savings" treated as private income for super-tax purposes. This clause, although no doubt aimed at "one-man" companies formed without any real trading object, is not favourable to corporate saving. Theoretically, there is a good deal to be said for the proposal to give a rebate for Income Tax on the *undistributed* profits of companies. But the chief practical argument against it is that it would be difficult or impossible to put it into effect in such a way that it did not still further encourage the formation of the tax-evading "one-man" company.

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own enterprises, rather than by loans subscribed by private individuals. Moreover, sums devoted to repaying the National Debt are an indirect form of State saving, in so far as the sums repaid are generally reinvested by the individuals who receive them. In some other countries, the State accepts a much larger share of the responsibility for the maintenance and increase of its citizens' material equipment. In the City State of Vienna, for example, the proceeds of the house-tax are devoted almost exclusively to the building of new houses.

But the sphere of Government saving could be greatly extended, if the extension were desired. The investment of public revenue in industrial concerns, whether for the purpose of acquiring public control of a particular industry or business, or with a view to a future increase in revenue, is not an impossible development. In this country we have already had a number of varied preliminary experiments, ranging from the nationalisation of roads and postal communications to the acquisition of shares in the Suez Canal and in the Anglo-Persian Oil Company—though not all these State investments have been acquired exclusively out of State Revenue.

In actual practice, if there is an increase in Government saving in this country, it is likely to come about in two ways. There is, first, the method of Debt repayment, which we have already referred to. Apart from this, any extension of the scope of State saving is most likely to take place, not from the desire to relieve the individual of his responsibility to provide for the future, but as the result of an extension of central and local government enterprises. For, although theoretically it is possible for the State to be a shareholder in industry without being actually director, it would in practice be difficult for a modern democratic Government actively to finance an enterprise without accepting willingly or unwillingly responsibility for its control.¹ That does not of course mean that finance by government involves active management by government

¹ Loans guaranteed under the Trade Facilities Act are not an exception to the rule, because the State does not usually have to find the money.

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agents; there are always various alternative and intermediate stages of public control.¹ But it does imply that the desirability of drawing on the public revenue for a supply of fresh capital for industry depends largely on the nature of the industries in question, and the measures of control involved.

Leaving on one side—as irrelevant here—the vexed question of Government control of industry, there is one potential advantage of State over private saving, as a source of fresh capital. A government with an organised intelligence service should be able to forecast much more accurately than the individual the probable economic utility of enterprises which it is called upon to finance; and it is in a position to take a broader view of economic utility than the private investor.² Whether in fact it does so or not will depend largely on the constitution and personnel of the body charged with the administration of the funds for investment. Unless the latter is removed in some degree from direct control either by politicians on the one hand, or by Treasury officials on the other, its policy is likely either to be unduly influenced by the pressure of interested parties, or unduly restricted by the desire for safety.³ The same administrative problem occurs in the case of nationalised industries, but one cannot say that it is insoluble.

It is evident that, unless there were a big absolute decline in production, a more equal distribution of wealth brought about by Government action would involve an increase in the funds available for organised communal saving. The extent to which

¹ See suggestions in Keynes' *End of Laissez-faire* and Rathenau's *In Days to Come*.

² I am not here considering public expenditure on education, etc. as State investments, except in so far as it adds directly to the stock of material goods. The criticism of the private investor refers rather to the employment of much of his savings in ways that are socially unprofitable.

³ It may be added that there are already, in our own constitution certain administrative bodies entirely or mainly supported by public funds, which finance trade and industry directly or indirectly, but which are not under the immediate control of the Treasury or a Ministry, e.g. Development Commission, Forestry Commission, Empire Marketing Board.

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the increase in the State's ability to save would be offset by a decline in the savings of its individual citizens depends of course largely on the nature of the equalitarian measures employed. With that factor we are not for the moment concerned. But it may be remarked that, in our own country, the increase in progressive taxation, during and after the War, has undoubtedly been met largely, though not entirely, by reducing expenditure on current wants. One may cite as evidence the fact that, while national taxation in 1924, measured on the basis of 1924 values, was over £400 millions more than in 1914, the aggregate savings of individuals and corporations, measured on the same basis, are estimated to have declined by not more than £150 to £200 millions; and the decline in savings was at least partly due to trade depression.¹

§ 11. An examination of the relationship of inequality in distribution to each of the three sources of capital in the modern state has led to the following conclusions. With a much more equal distribution of wealth (irrespective of the method by which it is obtained) it is fairly certain that there will be a reduction in the additions to the capital stock coming from private savings—unless and until production is greatly increased by the operation of other factors. Thus a greater responsibility for maintaining and augmenting the equipment of industry would have to be shouldered by organised business and by Government. On the whole, it is probable that, even under the most favourable circumstances, the material capital of the country would increase at a somewhat slower rate than under a more unequal scheme of distribution. But the actual rate of increase is, within limits, a matter of deliberate choice, for, as we have shown, it is not beyond the capacity of the modern state to control both the extent and direction of fresh savings, and, if need be, to exact from its citizens a sacrifice of current expenditure greater than that which they would freely make under the operation of the usual private motives for saving.

¹ The pre-war estimate of savings related to a period of boom. (See remarks in *Census of Production 1907 Report*.)

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§ 12. There is, in any case, no reason to suppose that production per head will actually decline, unless the total savings are maintained at their present or their pre-war level—even if we make the impossible assumption—so often unconsciously made by business men and journalists—that the quantity of capital is the only variable factor to be considered. The statistics available about the economic position in our own country do not warrant such a conclusion. In the opinion of the Colwyn Committee, a *net* increase in the capital invested in British industry of £50 millions a year dropping to £8 millions a year in ten years' time would be sufficient to maintain home production per head, at the present rate of increase in population.¹ The total yearly savings invested in home production were estimated at round about £350 millions in 1924.² No doubt a considerable proportion of this £350 millions disappears in Capital losses and does not form a *net* addition to the value of the Capital stock. But, unless the depreciation allowances of organised business, counted as a business expense, are entirely inadequate to cover what they are intended to cover, the £200 millions of corporate savings out of undivided profits (over and above the depreciation allowances) should alone be more than sufficient for a growth of capital for home uses faster than the growth of population.³

I have no desire to strain these figures of “national savings,”

¹ See *Majority Report*, p. 244, para. 699.

² Bowley and Stamp, *National Income in 1924*, p. 57.

³ Sir J. C. Stamp in his *British Incomes and Property*, after criticising current pre-war estimates of capital losses, not allowed for in computing Income Tax profits, as much too high, puts the amount of annual trading losses which eat into Capital values and are not allowed for in the Income Tax statistics at not more than £16 millions a year (1914) (p. 186), to which he adds certain other expenses not fully allowed for, making a grand total of £27·5 millions (exclusive of expenses which would not occur in future). (See p. 203.) In his joint book with Dr. Bowley on the National Income in 1924, this total is increased to £50 millions. See also para. 52 of Colwyn Committee Report, which points out that the figure of Company Reserves is exclusive of allowances for wear and tear and obsolescence.

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which are admittedly rather vague in definition and open to a considerable margin of error.¹ But if they mean anything, they certainly do not indicate that the capital available per head of the population is likely actually to decline, if transfers of income within the community make further inroads into the private savings of the wealthy. It is interesting to note the opinion of the Colwyn Committee, that the large transfers, which already take place in our community, by the use of part of the proceeds of progressive taxation for public expenditure on the "social services," had not yet caused the supply of fresh capital to be "inadequate to meet current trade demands."²

But, if it is absurd to suppose that savings must be kept at their present total in order to maintain the existing level of productivity, it is also false logic to argue that, because inequality of distribution is more favourable to the increase of capital, *therefore* under greater equality production is likely to be less

¹ Mr. Coates (late Director of Statistics—Inland Revenue) in making his estimate of National Savings (£500 millions) put the margin of error at 10 per cent. either way only. See his evidence to Colwyn Committee.

² Para. 60 of the Majority Report of the Colwyn Committee states: "Generally we conclude that the falling off in the National Savings, equal to £150 or £200 millions at present-day prices, gives ground for anxiety but not for pessimism. It would be unreasonable to expect that in a period of severe trade depression . . . there should be an abundant flow of savings. It is not clear . . . that the diminished flow has been inadequate to meet current trade demands. When these demands increase, we do not doubt that savings will answer to the stimulus; but the need for capital may be very great, and it would be unwise to assume that there will be no shortage."

Para. 133 of Minority Report (p. 387) quotes the evidence of Mr. Coates (formerly of Inland Revenue) that "there seems little doubt that the existing capital equipment of industry is sufficient to maintain a marked expansion of activity without additional capital requirements except in the form of working capital" and that he was "not disposed to think that the existing rate of income taxation has a harmful effect upon the supply of permanent capital." In the opinion of the Minority, "the principal causes of a decline in new savings must be sought in factors other than taxation."

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than it would otherwise have been. For the argument entirely neglects the possible effects of the scheme of distribution on the other variable factors that influence productivity.

§ 13. Chief among these other factors is the efficiency of labour. Is then a high degree of inequality of distribution necessary for a high degree of efficiency? The efficiency of labour as a whole depends on three things—the ability of the individual worker, his willingness to work and to co-operate in a given system of organisation, and the efficiency of the system of organisation itself in evoking willing and able work. Since we are for the present concerned with the effects of unequal distribution and of greater equality in themselves and apart from their causes, it is not necessary to consider the effects on efficiency of the whole system called Capitalism, but merely the results of those features which are the necessary products of inequality. Thus the efficiency or inefficiency of labour under different methods of competition, combination, or co-operation is a subject that is here largely outside our scope. So far as methods of industrial organisation are concerned, we need only consider here the changes that would necessarily follow from a more equal distribution of wealth, independently of the measures by which it might be accompanied. For example, under our company and commercial law as it stands, a more equal dispersion of property does not in itself involve inevitably more or less competition or combination or state enterprise. There is only one important change in methods of industrial organisation which would seem necessarily to follow from the fact of greater equality in distribution. The present concentration of property in a relatively few hands makes possible a degree of autocracy in industry which could hardly survive were property more deconcentrated; and confers on a small class of large proprietors a very great differential advantage in bargaining with those who require to use their property. That differential advantage, at present to some extent counterbalanced by labour combinations in large-scale industry, is, in the nature of things, bound to dwindle as inequality of property is reduced. For, just as concentration of economic power follows

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concentration of property, so dispersion of power follows the dispersion of property.

It is, of course, quite conceivable that a more equal distribution of wealth may be achieved by transferring to the State the bulk of the property required by industry; and, in such a case, there would not necessarily be any deconcentration of economic power, and that power might be wielded in an autocratic fashion. But, in a state accustomed to political democracy, it is at least probable that a more equal distribution of the individual property that did not pass to the State would involve a greater degree of democracy in industry. More democratic methods of industrial organisation may bring an interim period during which efficiency may suffer, because those who have never had industrial responsibility before are having to learn some of its lessons. But in the long run it is bound to improve the morale—not to mention the happiness—of the great majority of individual workers.

There is no employer and no employee who does not know, when he takes the trouble to think about it, that the willingness to work of the individual worker is the most important factor in the efficiency of labour. Indeed the efficiency of a system of industrial organisation must be judged largely by whether or not it evokes a willing spirit of co-operation. The point has been put authoritatively by Sir Josiah Stamp when he says: "Ethical impulses for abundant and unstinted service result in increased output and produce automatically the funds for a higher reward. . . . The standard of life to be attained without elaborate contest, as a share of universal hard work and efficiency under stable conditions, far exceeds any standard that can be got out of the production that results in a world of suspicion and artificial restriction."¹ Yet it is just these ethical impulses and this willingness which a very unequal distribution of the burdens and of the product of industry tends to destroy. Our great inequalities of income and effort certainly help to cultivate so-called "inferiority complexes" and the vices of envy and greed, but—what is much more important as a

¹ *The Christian Ethic as an Economic Factor*, pp. 38 and 106.

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hindrance to efficiency—they also arouse a widespread feeling, not only or even chiefly among the poverty-stricken, that the present system of distribution is unjust and immoral. And there is no need of the lesson of the last few years to prove that a sense of social injustice can play havoc with production. "Justice," says Edwin Cannan, "is cried for by children, pagans, and barbarians. What we have to do is not what people call just, but what we find to be best."¹ But the fact remains that ideas of social justice and public morality do enter into what people "find to be best," and that the ethical aspects of an economic system cannot be disregarded as irrational or even as a non-economic consideration. It is easy to demonstrate, on the one hand, that current ideas of what is right and just are not very subtle or very clear guides to the proper conduct of society in the economic sphere, and that, in seeking the practical application of an ethical ideal, we should be compelled, in the last if not in the first resort, to analyse questions of expediency. But it is equally true that, in order to do the expedient thing, we must appear to be just, and—to parody Bentham's saying about love and happiness) the best way to appear to be just is actually to be just.

Current ideas of justice do not, it is true, indicate clearly whether the distribution of the product of industry should be according to the needs of the individual, or according to the amount of effort which he puts forth, or according to the value of its effects, under the circumstances of the time.² But it is at

¹ From a letter to Dr. Scott Nearing, republished in an *An Economist's Protest*. (P. S. King, 1927.)

² In the same letter, Cannan remarks:—"Income according to service is almost obviously a hopelessly rotten ideal, since it means nothing for those who, temporarily or permanently, cannot serve at all, and these, in many cases, are the very people whose needs are greatest." "I have never swerved from the advocacy of the nearest possible approximation to distribution according to need, and have always looked on distribution according to service as a chimera, and an undesirable chimera."

Sidgwick, on the other hand (*Principles*, Book III, Ch. VI, p. 506), considers that "the demand for greater equity in distribution can only be interpreted as a demand that differences in

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least certain that they are *not* in harmony with inequalities of wealth which correspond *neither* to differences in need, *nor* to differences in effort, *nor* to differences in the amount and value of the personal economic services rendered to society by the individuals concerned.¹

Some economists, indeed,² have been at pains to show that, in the modern community, incomes are in fact distributed according to the value of its members' services. But, in order to do so, they have to treat all incomes from property as representing the value of the economic services of its owners. "Suggestions of this kind," says Dr. Dalton, "though capable of being so 'interpreted' as to be logically flawless, strain language to the breaking-point. If made by rich men, poor men might be pardoned for thinking them disingenuous. When made by professional economists, they tend to discredit economic science in the eyes of the simple." It is "hard to believe that merely to permit one's land to be used, or merely to refrain from consuming one's capital is to render any positive service, or that income from inherited property can be seriously re-

remuneration, due to causes other than the voluntary exertions of the labourers remunerated, should be reduced as far as possible." He points out the impossibility of applying the principle in practice, but remarks (p. 517): "Though the principle of rewarding desert remains, in my view, paramount, it is rather as a stimulus indispensable to the most economic production, which thus presents itself as a condition by which all efforts to make distribution more economic ought to be confined."

G. Lowes Dickinson (*Justice and Liberty*) seems to hold Distribution according to Effort to be the equitable ideal.

Hugh Dalton, in his book *Inequality of Incomes*, has a chapter on "Justice and Inequality of Incomes," in which the various conflicting ideas of economic justice are shrewdly criticised. The author shows that, in the last analysis, there is no real disharmony between the ideals of equity and economy.

¹ Dean W. R. Inge (*England*, p. 192), having quoted statistics to show that redistribution could do little good, remarks: "It is easy to prove that the distribution of incomes in this country is flagrantly disproportionate to the public services of the recipients."

² E.g. J. B. Clark.

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garded as payment for service rendered by the present owner. It is also very hard to believe that, if competing sellers of any commodity cease to compete and enter into combination, as a result of which their output is deliberately restricted, the price of the commodity raised and their incomes largely increased by monopoly profits, these increased incomes represent increased services rendered to society.”¹

Moreover, in biased hands, the argument usually neglects to mention that—apart from such “unearned” elements in income—unequal abilities and unequal contributions to the economic pool are themselves partly due to previous inequalities of wealth. Hence, in justifying the method of giving unequal payment for services of different value, it appears to justify any inequalities which may arise when that method is applied, regardless of the fact that in our society unequal distribution has already loaded the dice by creating unequal opportunities for physical and mental development. “I starved the horse; he could not work; therefore he was not worthy of my food.” Such arguments do not convince the simple, even when the logical flaw is not apparent. And, in fact, the more enlightened supporters of our present system of distribution have given up any attempt to find an ethical basis for it. But, in trying to remove the controversy from the realm of ethics to the realm of expediency, they have sometimes forgotten that there is no boundary between the two domains, and that expediency without some common philosophic aim is as much a will-o'-the-wisp as justice considered irrespective of expediency.

It is, at any rate, futile, in the practical application of a science which aims at promoting human happiness, to disregard people's feelings about what is “just.” Attempts to dispel the smoke of economic discontent, by pointing out the obvious economic advantages of social contentment, have not hitherto proved successful. In so far as greater equality of incomes and effort is likely to quench the fire behind it, it is a more effective remedy for the symptoms of grudging work and stinted service. In so far as the present inequality fans the

¹ *Inequality of Incomes*, pp. 23, 24.

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flame, it is not conducive to a high degree of efficiency.

§ 14. We have now to consider the remaining factor in the efficiency of labour—namely the physical and intellectual abilities of the people. It has often been argued that, since at no time in history has productivity been sufficient to give much comfort or leisure to the masses, unequal distribution was necessary in order that science and the arts might reach their present high level of achievement, by the intensive culture of a favoured minority. I am not concerned here with the validity of the historical argument, nor with the ethics of this mode of social conduct, but merely with its relevance to present-day civilised communities. And, as an argument for the maintenance of present inequalities, it is obviously futile. For everyone knows that the larger part of the surplus income of the richer classes is not spent in the pursuit of knowledge or on the maintenance of indigent scientists and artists, but is invested in industry or spent on comforts and luxuries.

And it is demonstrable, on the other hand, that a transfer of part of this surplus purchasing-power to the public funds available for improving the health and education of the people could result in raising the general standard of physique and intelligence far beyond its present level. For, it is well known—particularly to those who have to deal with the ailments and defects of infants and school children—that physical and mental qualities depend largely on circumstances of environment, alterable by the concerted action of the community.

The old eugenist's argument that environment does not matter in the long run, because acquired characteristics cannot be inherited, was never logical, except when it proceeded on the ridiculous assumption that the possession of material wealth was an adequate test of fitness to survive. For, of what use is "innate ability" in an environment which prevents it from becoming anything more than "innate," or when the body which contains it is killed off by underfeeding and disease before it can propagate its kind? Moreover, since the eugenists would presumably not waste their breath, unless they believed that the propagation of permanent defects in quality

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could be checked or stopped, we may agree that environment must have its reactions upon heredity also. For the wider application of eugenic principles by individuals will only come with an improvement in general education and hygiene. Indeed, until we get a better environment for the masses, we are unlikely to get better breeding.¹

One must conclude, therefore, that in so far as the surplus purchasing-power of the rich is not employed in improving the health and intelligence of the community at large, the present inequality in distribution is not favourable to a high general level of ability. Hence, on this last count also, it is not conducive to the highest efficiency of labour.

§ 15. Other factors in productivity which ought, perhaps, to be considered are the size of the population, and the proportion of it engaged in production. For it has sometimes

¹ For a more elaborate refutation, from the economic point of view, of the eugenic arguments against bothering about environment, see Pigou, *Economics of Welfare*, Chap. IX, "The Quality of the People," pp. 92-108. He quotes Professor Punnett ("Mendelism") as saying that hygiene, education, and so on, are but "fleeting palliatives at best, which, in postponing, but augment the difficulties they profess to solve. . . . Permanent progress is a question of breeding rather than of pedagogics; a matter of gametes, not of training."

The Whethams in their book, *The Family and the Nation*, are much more reasonable than some of the eugenists whom Pigou quotes. They do not go beyond the following balanced statements: "Modern biological and statistical investigations have emphasised the importance of heredity in determining individual character. . . . The influence of environment—home surroundings, education, the accidents of life—do but modify the innate qualities handed down to man from his ancestors" (p. 207). "At present, the study of environment holds the field. The results of improvement are there more visible and more immediate. They are of incalculable value, and to them the progress of the past century is largely due. But the changes in the innate qualities of the race, though slower in action, are of even more profound importance than alterations of the external conditions of human existence" (p. 5).

See also J. B. S. Haldane's brilliant essay on Eugenics and Social Reform in *Possible Worlds*.

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been suggested that equalitarian schemes of distribution would be accompanied by a more rapid growth of population than would otherwise occur. It would, however, be difficult nowadays to maintain the thesis that a rise in the incomes of the poorer section of the community would be soon absorbed by an increase in their families, or that there would be any tendency for production per head to diminish on that account. For recent statistical research has shown that, on the whole, it is the classes with the lowest incomes and standard of life that have the largest families. The average size of the families of the professional and middle classes is smaller than that of the artisan and labouring class, and that of the skilled artisan is smaller than that of the unskilled labourer.¹ In so far, therefore, as greater equality of incomes results in raising the standard of life of the poorer classes, it is likely to retard rather than accelerate the growth of population.² It is, of course, possible that a measure of redistribution involving very generous family allowances might have the opposite effect. But transferences from rich to poor which enable the latter to obtain better education and housing are likely to lead to a greater providence in sexual matters and a limitation of the size of families to that which the parents could properly afford.³

§ 16. Since we are concerned with productivity per head of

¹ See "Occupational Fertility," volume of 1911 Census (Decennial Supplement, pub. 1920); also T. H. Stevenson, in *Statistical Journal*, May, 1923; also Occupational Mortality and Fertility Report of 1921 Census, Decennial Supplement (pub. 1927).

² Cf. J. B. S. Haldane's *Possible Worlds*, essay on "Eugenics and Social Reform," in which he argues that the best way to reduce the birth-rate of any class is to give it more income and more leisure.

³ Professor Pigou (*Economics of Welfare*, p. 90) concludes, from similar evidence, that "an improvement in the fortunes of the poor is not likely, in an isolated community, to cancel itself by causing a large expansion of population"; but points out that, in a non-isolated community, an increase of population might result through immigration. But, "in any event, the beneficial influence of the changed conditions is not destroyed, but is merely spread over a wider area."

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the whole consuming population rather than per head of producers, the proportion which the latter bear to the total population is a factor to be taken into account, and we have to consider in what way, if at all, that proportion is likely to be affected by changes in the distribution of wealth.

If greater equality were obtained by the reduction of incomes from the passive ownership of property, a certain number of people now living chiefly or entirely on "private means" would be led to seek work. The number of adult persons, who are fit to work, and who are not occupied in any trade, industry, or profession, or in the work of looking after children and the home, is, in fact, comparatively insignificant.¹ The number of men, who have some profession or trade, but do not pursue it as a regular full-time occupation and derive the bulk of their income from private means, is certainly much larger.

As against this addition to the ranks of those engaged in economic activities, one should perhaps set the possible reduction of a larger number of very young and aged persons, whose withdrawal from industry might result from measures of redistribution, which involved raising the school age or increasing old age pensions.²

The effect of changes in distribution on the section of the working population which is unemployed is a much larger problem. But, for the present, it will be remembered that we are concerned only with the influence of greater or less equality in itself; and, apart from the by-products of the factors which

¹ Professor Bowley puts the number of men, and single and widowed women, who are unoccupied and have investment income in excess of £135 a year, at about 200,000 for the United Kingdom in 1924. But many of these would be aged and infirm. In the 1911 Census of England and Wales, 52,000 males were classified as "unoccupied" and having "private means," but to some 147,000 unoccupied adult males no special classification was attached. (Bowley and Stamp, *The National Income*, 1924.)

² 270,000 persons under sixteen years of age and 798,000 over sixty-four years were returned as "gainfully occupied" in Great Britain in 1921.

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shape distribution, one can see no necessary reason why the numbers of the unemployed should be increased by a more equal distribution of incomes. If the surplus transferred from the richer classes were employed to raise unemployment benefit to a much higher level, without adequate safeguards, no doubt increased unemployment might result. But there is no necessity for the transfer to take that form. Again, a sudden and revolutionary change in the organisation of industry and the distribution of the product might well increase unemployment—certainly for a time.

But there are reasons why a gradual change towards greater equality, which gave time and opportunity for the readjustment of industry to the new conditions of demand, might have the opposite effect. For, in the first place, the trades engaged in the production of the necessities and general conveniences of life would increase at the expense of the luxury trades, and employment in the former is likely, other things being equal, to be more stable than in the latter. In the second place, since one result of the greater equality of incomes is likely to be some decline in the proportion of the total income devoted to capital purposes, there would be to some extent a shifting from industries supplying capital equipment (for which demand is relatively unstable) to those supplying goods for consumption (for which demand is relatively stable). Lastly, in so far as the transfer from rich to poor takes the form of better general education, the mobility of labour between different trades is likely to be greater, and unemployment due to lack of mobility correspondingly diminished.

These are merely general theoretical considerations. To estimate the actual effect of a more even distribution of wealth on the loss of productivity due to unemployment, we should, of course, need to consider the exact means by which that change in distribution was to be brought about and the nature of the measures likely to accompany it. Here, it is merely necessary to point out that there are no reasons for supposing that such a change would inevitably involve either a larger population or more unemployment than otherwise.

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denial, but which need to be swept aside before any progress can be made in economic and political thought. To show, for example, the obvious advantages of enabling men to enjoy securely the "fruits of their labour" is not to justify all existing forms of property or its present distribution—any more than the manifold examples of property gained without labour justify the counter-generalisation that all property is theft. Yet for a long time these indiscriminating methods of attack and defence have held the field and diverted attention from the real issues. Fortunately for the progress of their science, most economists now reject such generalisations and the elaborate sophisms required to justify them, as illogical and beside the point.

In the face of modern economic analysis, no one is likely to try to maintain the thesis that *all* the factors responsible for existing inequalities of wealth are either inevitable in the nature of things or desirable in the interests of productivity. It is only possible to argue, as a matter of opinion in the absence of conclusive data, that such factors as are immediately alterable without damage to productivity, do not in fact contribute greatly to inequality; and that, consequently, no substantial reduction of inequality is likely to be achieved in the near future without checking the operation of other factors, which do at present act as important stimuli to productive effort. In order to decide in a scientific manner the probable truth or falsehood of this gloomy assumption, we should need to determine, by analysis of the available facts, *first* which of our institutions that contribute to unequal distribution may be modified or eliminated without checking productivity, and *second* the relative importance of those factors as causes of unequal distribution.

This book is not an attempt to carry out such an analysis, but rather to contribute to it by selecting one particular factor for special study and criticism. In the following chapters, we shall try to answer the questions: In what way does our system of inheritance contribute to unequal distribution? What is its relative importance as compared with other causes of in-

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equality? In what respects is the institution in its present form desirable in the interests of production? How can it be modified without damaging those interests?

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THE STATISTICS OF THE DISTRIBUTION OF WEALTH IN BRITAIN

1. THE DISTRIBUTION OF INCOMES

(A) The following estimate (based on the Income and Super-Tax statistics and an independent valuation of wages and "intermediate incomes") was given by A. L. Bowley for the *United Kingdom* in 1910 (see "Change in the Distribution of the National Income," 1880-1913).

TABLE I

Income Range.	Number of Incomes.	Amount £ mills.	Cumulative Percentages.	
			No. %	Amt. %
Under £160 . . .	18,850,000	1,055	100·00	100·00
£160-700 . . .	880,000	250	5·46	43·6
£700-5,000 . . .	200,000	415	1·062	30·2
£5-10,000 . . .	8,143	55·05	0·0621	8·11
£10-20,000 . . .	2,903	39·1	0·0213	5·17
£20-45,000 . . .	1,026	29·0	0·0068	3·08
£45,000 + . . .	327	28·9	0·00164	1·54
Aggregate of Individual Incomes . .	19,942,400	£1,872 ms.		
Add Undistributed Income of Companies, etc. . .	—	£50 ms.		
Evasion . . .	—	£40 ms.		
TOTAL INCOME . .	—	£1,960 ms.		

N.B. The amounts of income are reckoned *before* deduction of Income and Super-Tax. Income evading tax and Corporate savings cannot be distributed in the table of private incomes.

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(B) *Post-war Distribution.* (Table II, on p. 65.) Dr. Bowley and Sir Josiah Stamp's study of *The National Income in 1924* unfortunately does not help as regards distribution between individuals. The only source of information is the table of distribution of taxable incomes in 1919-20, given by the *Board of Inland Revenue* in its Sixty-fourth Report (pp. 112-13). This Table only takes us down to the £130 limit. Below that limit there were some 13 million incomes. Sir J. C. Stamp (*Wealth and Taxable Capacity*) suggested nearly £100 p.a. as the average income of this class. In the absence of anything more authoritative, I adopt that estimate in the following table.

This table does not, however, represent the distribution of income in any one year, and it is not comparable with Dr. Bowley's table of pre-war distribution. Most business profits were assessed on the basis of the previous three years (viz. 1916-17, 1917-18, 1918-19), when prices and profits were rising rapidly, though the latter were kept in check by the Excess Profits Duty. But wages and salaries were assessed on the basis of the year in question or the preceding year. Hence there is a relative understatement of incomes from property, and therefore an understatement of inequality in distribution. A second factor which makes this table not comparable with the pre-war one is that the Excess Profits Duty was deducted as a business expense before income was assessed to tax. This duty was not in existence before the War, and there is no real reason why it and not Income Tax should be deducted before arriving at the figures of "actual" income. If it had *not* been deducted and assessable profits had increased by the full amount of the Duty, there would have been a large chunk of extra income going to those in the higher reaches of the scale. (The proceeds of Excess Profits Duty in 1919 were about £390 millions.) Lastly, corporate income (i.e. undivided profits of companies) though not included in either table, formed a larger proportion of the total after the War. Income evading taxation was estimated to be £75±15 millions in 1924, but as against this must be set some £50 millions to allow for over assessment, where losses are not provided for. (Bowley and Stamp, *The National Income in 1924*, p. 17.)

2. THE DISTRIBUTION OF "EARNED" AND "UNEARNED" INCOMES (Table III, on p. 66)

In the Income-tax assessment sense:

"*Earned*" Income is income "immediately derived by an individual from carrying on or exercise by him of his trade, profession, vocation or employment" (see I.R., 64th Rept., p. 80). If

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TABLE II. DISTRIBUTION OF INCOMES IN UNITED KINGDOM, 1919-20

Cumulative Percentages.		Range of Income.	Number.	Amount. £ mills.	Income and Super Tax Deducted. £ mills.	Tax-free Amount. £ mills.	Average Tax-free Income. £
No. %	Amt. %						
100.00	100.00	Under £130	13,000,000	1,300	nil	1,300	under £100
37.12	63.72	£130-160	3,490,000	489	2.3	487	139
20.516	50.12	£160-200	2,031,400	355	4.1	351	173
10.846	40.22	£200-400	1,535,600	402	15.4	387	252
3.536	29.02	£400-1,000	510,500	307	38.1	269	530
1.106	20.47	£1,000-2,000	142,900	193	42.1	151	1,060
0.4264	15.09	£2,000-£5,000	62,630	185	58.4	127	2,040
0.1284	9.93	£5,000-25,000	24,600	230	98.6	131	5,400
0.01136	3.52	£25,000-100,000	2,220	92	48.1	44	19,800
—	—	Over £100,000	165	31	19.1	15	91,000
TOTAL		21,000,000	£3,587	£326.2	£3,260	£155	
		Abt	260				
		Income					
		Undistributed					
		TOTAL (excluding Amount evading Tax)	£3,850 mills.				

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TABLE III. "EARNED" AND "UNEARNED" INCOMES IN UNITED KINGDOM, 1919-20

Range of Total Income.	Number of Incomes.	"Earned" Income Amt.	"Unearned" Income Amt.	Total Taxable or "Actual" Income.	Un-E. % of Total.	Cumulative Percentages of Amount			Number % Cumulative.
						Earned.	Un-earned.	Total.	
		£ mills.	£ mills.	£ mills.	%	%	%	%	%
Under £130 .	13,000,000	1,250	50	1,300	4	100.0	100.0	100.0	100.0
£130-500 .	7,237,000	1,234.1	90.8	1,324.9	6.8	56.4	93.1	63.8	37.5
£500-1,000 .	330,510	135.3	92.6	227.9	40.5	13.1	80.7	26.8	2.71
£1,000-1,500 .	98,430	52.5	65.6	118.1	55.6	8.4	67.8	20.4	1.12
£1,500-2,000 .	44,440	24.4	51.1	75.5	67.7	6.56	59.0	17.2	0.645
£2,000-2,500 .	24,870	17.0	37.7	54.7	68.9	5.70	51.9	15.1	0.430
Over £2,500 .	64,750	146.0	(340)	486.0	(70)	5.12	46.7	13.5	0.311
Total Personal Incomes	21,000,000	£2,859 ms.	£728 ms.	£3,587 ms.	20.3 %				
Add Undistributed Income	—	—	£260 ms.	£260 ms.					
Total Income	—	£2,859 ms.	£988 ms.	£3,847 ms.	25.7 %				
Income from both Work and Capital, included as "Earned" in Tax-paying class		£320 ms. = 12½% of incomes over £130 p.a.							

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thus includes profits of private firms and professions, derived partly from capital, as well as wages and salaries.

"Unearned" or "Investment" Income means all Income other than "Earned" Income, as above defined, i.e. income from property which yields a return separable from that of labour.

The following table is based on the Inland Revenue figures for 1919-20 (see 64th Rept., pp. 104, 112, 113), and Table II.

An estimate has to be made of "Unearned" income in the class below the Tax limit. Bowley and Stamp put this at £77 millions in 1924 under the limit of £150 p.a. (see *op. cit.*, p. 46). My figure for unearned income under the £130 p.a. limit in 1919 (£50 millions) is a very rough estimate, based partly on the figure for 1924, partly on the Inland Revenue figures of exempt incomes, and partly on Prof. Clay's estimate of capital held by those with estates of less than £100. As regards the *first basis*, the aggregate taxable income received by persons with incomes between £130 and £150 in 1919 was probably in the neighbourhood of £400 millions. The percentage "unearned" in the £130-£500 class was nearly 7%. 6% or 7% of £400 millions gives say £25 millions as the "unearned" income of those in the £130-£150 class; and if £77 millions was the unearned income of all under £150 in 1919 as in 1924, the unearned income of those below £130 would thus be about £50 millions.

As regards the *second basis*, the Inland Revenue figures of income exempted as under the £130 limit give £79 millions. But of this £26 millions was farmers' "earned" profits, and a certain unknown proportion of the £21 millions exempted under Schedule D was in respect of manual wages. £0.7 million also was exempted under Schedule E. (Salaries). On the other hand, the Income Tax figures do *not* include all interest on War securities not taxed at source and received by exempt persons, another unknown quantity.

As regards the *third basis*, Prof. Clay put the average capital per head of $13\frac{1}{2}$ million persons with estates less than £100, in England, at £67 10s. per head in 1920. This estimate included £170 millions of furniture, etc., not yielding a monetary income, so that the average capital yielding a monetary income becomes £55 per head. Assuming this to be also the average capital holding of 13 millions below the Income Tax limit in the United Kingdom, and an average yield of 6%, we get a total investment income for this class of about £45 millions.

The exact division into "Earned" and "Unearned" of the total income in the class *over* £2,500 is also not given in the Income Tax figures. The Board of Inland Revenue, however, supplied to the Colwyn Committee a table showing the number and amount of "earned" incomes received by Super-tax payers in 1913 and

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1922. (Appendix XV, Colwyn Committee Report.) In each case "unearned" income formed a little over 70% of the total. (72% in 1913, 71% in 1922.) (Note that Directors' fees are included as "earned" income.)

In 1919-20 the proportion of unearned to total income in the class £2,000-£2,500, as given by the Income Tax figures, is 69%. Thus the proportion for the whole class of incomes £2,500 and over may safely be put at about 70%, and the total "unearned" income in this class is therefore put at £340 millions. The aggregate of "unearned" incomes becomes £728 millions to which must be added £260 millions of undivided profits, making £988 millions in all. The profits of *taxpayers* (over £130) derived partly from labour and partly from capital, and included in the total of "earned" income, come out at about £315-320 millions. I may add that, by an entirely independent method, employed before some of the data used above were known, I arrived at an estimate of £300-330 millions for this "intermediate" income of the "taxable" classes.

In view of the considerations mentioned in connection with Table II the actual difference between the distribution of "earned" and investment income is even greater than is indicated in this table. Pure earnings also, exclusive of incomes derived partly from capital, would be more evenly distributed than "earned income" in the Income Tax sense.

It should be noted, however, that the above table does not show the distribution of "earned" income and "unearned" income according to the size of individual earnings and individual unearned incomes separately. It shows, for example, that 2.7% of the people with total incomes over £500 received 13% of the total "earned" income, *not* that the 2.7% with the largest earnings got the latter proportion. A certain proportion, particularly in the richer classes (about 25% in the class over £10,000 a year) are not getting earned incomes. Nor can one assume that earners with the largest total incomes have in every case the largest earnings; though one can see that, on the average, taking broad classes, this is true, for the average "earned" income in each of the classes taken in the table does increase with total income.

3. THE DISTRIBUTION OF PROPERTY. (Tables IV. (a), (b), and (c), pp. 71 and 72)

The following tables, relating to England and Wales only, are based on the Estate Duty figures for property passing at death. For the years 1911-12, 1912-13, 1913-14, and 1914-15, the Board of Inland Revenue published the numbers and values of estates, liable to Estate Duty, according to the age of the decedent as

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well as according to the size of his fortune. On the assumption that the dying in each age-group are a fair sample of the living in the same age-group, it is possible from these figures to construct a table of distribution among the living. The numbers and values of decedents' estates in each age-group are multiplied by the reciprocal of the death-rate for that age-group. The method was first employed by Sir Bernard Mallet and Mr. H. C. Strutt, to estimate the total private property owned by the people of the country. It has subsequently been applied by Prof. Henry Clay in order to determine the distribution of that property (see Mallet and Strutt in *Stat. Journal*, 1910 and 1915, and Clay, *Distribution of Capital*, Manch. Stat. Soc.). The reciprocals of the death-rates for all males were first applied to the figures. But it was soon realised that these were not strictly applicable either to males in the property classes or to the considerable number of female property owners, as in both cases the death-rate is considerably lower than for males in general. The death-rates of males in various "Social"—or really occupational—classes have now been published by the Registrar-General both for 1910-12, and 1921-3. The death-rates of males in "Social Class I"—comprising the bulk of the upper and middle classes—have been used by Prof. Clay in converting the Estate Duty figures for 1911-13 (Table IVa).

The Estate Duty figures for 1923-4 and 1924-5, which form the basis of Table IV (b) and (c), give the distribution of men's and women's estates separately, and it is thus possible to be rather more accurate, by applying the "Social Class I" death-rates to the males, and the general female death-rates to the women's estates. There are no published figures of women's death-rates in different social classes. The number and value of living women's estates in Table IV (c) are, therefore, relatively to the figures for males, somewhat understated.) I ought to add, however, that, in making my estimate for 1924, I was not able to use the "Social Class I" death-rates for 1921-3, as they were not then published. I assumed instead that the death-rates in this class in 1922-4 bore approximately the same relation to the general as in 1910-12; in fact, the new official figures show an even greater difference between the classes chiefly at the young and middle-ages, but this is partly because "Social Class I" is now more strictly confined to the "comfortable" classes than in the pre-war classification. If the new official figures for death-rates in this class had been employed, the total value of estates held by the living would have come out perhaps about five per cent. higher than in my table, and the relative distribution might also have been slightly altered.

The method described above of estimating the amount and distribution of property held by the living has been criticised on the

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ground that estates left by the dying in any age-group are not in fact a strictly fair sample of those held by the living at the same ages. Gifts between the living, it is argued, are made, on the whole, by older men who are failing in health to younger people who are not failing; so that the death-rates applicable to the different age-groups affect the givers proportionately more than the receivers of gifts.¹ There is obviously some truth in the criticism, though it is probable that nowadays large gifts are frequently made by normally healthy parents to their children, soon after they have become adult, and in all such cases, death would take a "fair" or indifferent proportion of both young and old. In so far, however, as the criticism is just, our method of estimating distribution among the living would tend slightly to overweight the larger estates of older men and to underweight the smaller estates of younger men. But relative distribution within each of the various age-groups is so very similar² that the error involved on this account may be taken as unimportant for practical purposes. It is of more importance when the same method is employed to estimate the total value of the aggregate property.

Apart from criticism on theoretical grounds, there are certain technical discrepancies in the Estate Duty figures which would make an estimate of distribution based on the statistics of a *single* year liable to error. For example, neither before nor after the War, did the *values* of estates entered in the official tables correspond exactly to those actually passing in the year in question. But the possibility of error on this account can be greatly minimised by basing one's estimate on a number of consecutive years.

The figures of pre-war distribution in Table IV (a) are not, however, exactly comparable with those of post-war distribution in Table IV (b). For, in the first place, the pre-war figures do not include *all* settled property, whereas the post-war figures do. In the second place, the Estate Duty figures before the War referred to the total values of estates received for Duty; whereas after the War, they refer to the values on which duty was actually paid in the year in question. But this difference does not materially affect comparability of the post-war and pre-war figures, in the opinion of the authorities.³ Lastly—and more important—the totals of estates over £100 in the pre-war table are *understated* owing to the fact that the "multipliers" applied to the Death Duty figures were based on *male* death-rates only, and would have been higher if women's estates could have been treated separately.

¹ Stamp, *British Incomes*, etc., pp. 412–13.

² See Chapter VII, pp. 188–9 and Appendix.

³ See 63rd Report of Inland Revenue.

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TABLE IV. DISTRIBUTION OF PROPERTY IN ENGLAND AND WALES

Range.	(a) 1912.*			(b) 1924.		
	Number.	£ mills. Amount.	Cumulative Percentages. No. % Amt. %	Number.	£ mills. Amount.	Cumulative Percentages. No. % Amt. %
£0-100	16,144,000	470	100-00	16,523,000	900	100-00
£100-1,000	1,855,000	667	13-25	3,658,500	1,465	23-0
£1,000-5,000	439,000	1,046	3-29	942,870	2,406	5-97
£5,000-10,000	80,910	622	0-93	168,220	1,405	1-57
£10,000-25,000	58,160	932	0-495	109,870	2,031	0-790
£25,000-50,000	18,100	765	0-182	34,000	1,392	0-274
£50,000-100,000	9,890	584	0-0849	15,800	1,216	0-117
£100,000-250,000	4,580	645	0-0316	7,020	1,410	0-043
£250,000 +	1,305	865	0-0072	2,198	2,184 †	0-0103
TOTAL including, for over £100, estates un- der 25 yrs. of age	18,611,000	£6,600 ms.		21,462,000	£14,410 ms.	" Multiplier " : 1912 : 30 1924 : 34-2
TOTAL adults 25 yrs. and over	104,000			262,000		
	18,507,000			21,200,000 ‡		

* The figures in Table IV (a) are based on Prof. Clay's estimate in the paper previously referred to.

† This figure may be some £200 millions too high, as there was a " fluke " estate in the Estate Duty figures for the values of estates in the 25-34 age-group in 1923-4.

‡ The population over twenty-five years of age in 1921 was 20,731,738. To get the number over that age in 1924, I assumed it to have increased in the same proportion as the whole population. Actually, however, the adult population was probably increasing faster than the child population. Hence the correct figure is probably over 21,200,000. Since, however, the " multiplier " used for estates over £100 was a bit too low, the relative proportions are probably about right.

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1924
TABLE IV (c). DISTRIBUTION OF PROPERTY IN ENGLAND AND WALES AMONG
MEN AND WOMEN

Range.	MEN.			WOMEN.		
	Number.	£ mills. Amount.	Cumulative Percentages. No. % Amt. %	Number.	£ mills. Amount.	Cumulative Percentages. No. % Amt.
£0-100 . . .	7,030,000 (over 25 yrs.)	530*	100.0 100.00	9,530,000 (over 25 yrs.)	370*	100.00 100
Fixed Duty . . .	1,430,200	376.5	29.96 94.7	1,009,400	259	16.93 91
£100-1,000 . . .	750,130	475.5	15.66 91.0	468,800	354.5	8.13 85
£1,000-5,000 . . .	585,930	1,416	8.162 86.3	356,940	989.5	4.04 77
£5,000-10,000 . . .	110,320	1,880	2.303 72.1	57,800	524.5	0.93 55
£10,000-25,000 . . .	75,995	1,349	1.200 63.3	33,880	682	0.42 43
£25,000-50,000 . . .	24,340	980	0.444 49.8	9,660	412	0.127 27
£50,000-100,000 . . .	12,655	945.5	0.201 40.0	3,144	271	0.043 18
£100,000-250,000 . . .	5,620	1,126.5†	0.0742 30.5	1,397	283.5	0.016 12
£250,000 + . . .	1,817	1,921	0.0182 19.2	381	263	—
TOTAL . . .	10,030,000	£10,000 ms. = 69.4 % of Total.		11,740,000	£4,410 ms. = 30.6 % of Total.	" Multiplier * Males : 3. Females : 33.6
Including over £100 under 25 yrs.	189,000			73,000		
TOTAL over 25 yrs.†	9,830,000			11,400,000		
TOTAL over £100 all ages . . .	2,997,000	£9,470 ms.		1,941,500	£4,040 ms.	

* The proportion of the property held in estates of under £100 by each sex is taken as being the same as for the poorest class subject to Estate Duty (viz. 59% to men, 41% to women).

† See Note † to Table IV (b).

‡ See Note ‡ to Table IV (b).

APPENDIX TO CHAPTER I

ESTATES UNDER £100

Since the Estate Duty figures refer only to estates over £100 net value, it has been necessary to take some independent estimate of the aggregate value of property owned by those under that limit. Prof. Clay's estimates for 1912 and 1920 (respectively) were £470 millions and £910 millions. There is probably a large margin of error in these estimates, but this makes little difference for most purposes, since the property held by the class below the Estate Duty limit is certainly only a small proportion of the total, lying to-day somewhere between five and ten per cent.

THE NUMBER OF ESTATES

It is not clear what is the total number of individuals in the population to which the numbers of estates in the different classes should be related in reckoning the relative distribution of property. In his estimates, Prof. Clay chose the total number of "occupied" persons over fifteen years of age (plus an estimate for the small number living entirely on private means). But this cuts out married women with property of their own; and since their estates are reckoned separately in the Estate Duty figures, I have taken, as the total for comparison, the number of adult men and women *over twenty-five years of age*. The number and value of estates held by persons *under* that age is relatively very small.

The difference in the two totals is appreciable; in 1912 the total number of "occupied" persons *plus* those living on private means was 16,208,000, while the number of adult men and women over twenty-five years was 18,500,000, of whom over 16 millions were estimated to have estates below the Estate Duty limit.

The next Table (IV (c)) shows the distribution of property among men and women separately, for 1924 only.

It will be noticed that the relative inequality of distribution is very much the same for both men and women, though rather greater for men in the wealthiest classes. Thus 8.16% of adult males own 86.3% of their aggregate, and 8.13% of the women own 85.7% of their aggregate; 15.7% of males own 91.0%, 16.9% of women own 91.9%. This similarity in relative distribution as between men's and women's estates is remarkable, in view of the fact that, while a large part of the men's estates must be due to fresh accumulation, the bulk of women's property must be inherited. I refer to this point later in another connection (see Chapter VII, p. 190).

NOTE ON THE "MULTIPLIER"

The figure by which the total value of estates passing at death has to be multiplied in order to obtain the aggregate held by the

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living—called the “multiplier”—was estimated at 30 in 1912, and works out at 34 in 1924. If we had full particulars of both male and female death-rates in the upper and middle classes, and applied the reciprocals of these to the Estate Duty figures, the “multiplier” would probably be found to be 5% to 10% higher. If a multiplier of 37 is applied to the figure of estates passing in Great Britain in 1925-6, the aggregate value of private property in the hands of the living would come out at £18,000 *millions* (including an estimated £1,000 *millions* for those under the Estate Duty limit). This figure, of course, includes War Loans and excludes communal possessions, and is not comparable with estimates of the value of the concrete capital possessed communally and individually by the inhabitants of Britain. Sir J. C. Stamp's estimate of the aggregate of individual property (for the United Kingdom) in 1919 was £15,000 *millions*.

The “multiplier” differs little for men's and women's estates. It was 34·4 for men in 1924 and 33·6 for women. The latter figure would have been higher, had the special death-rate for “upper-class” women been known.

Variations in the “multiplier” are caused by variations in the age-constitution of various classes of property owners, and in the death-rate. If there were *no* gifts between the living and all property changed hands by inheritance at death only, the “multiplier” would represent the average number of years during which a unit of property remains in the hands of the living, or the length of a generation of property ownership. But gifts *inter vivos* artificially raise the “multiplier,” and when they are extensive, it will be somewhat in excess of the period between inheritance and death (see Strutt, S. J., May, 1910, and Mallet and Strutt, S. J., 1915). But, in Britain at any rate, the difference is not, at present, likely to be great. Note that the length of a generation, or the period between deaths of fathers and of their sons, lengthens when the death-rate is decreasing, and *vice versa*; though it is not necessarily longer with a low than with a high death-rate.

(See also Note to p. 131 of Chap. V below.)

CHAPTER II

INHERITANCE OF PROPERTY AND OTHER HEREDITARY ADVANTAGES

§ 1. THE word "Inheritance" is commonly used in a number of different contexts, and can be applied generally to anything acquired from a progenitor or from previous generations. As a legal term it has a very restricted meaning. It is confined to property succeeded to by legal right as distinct from bequests *by will*, and thus applies, in England, only to property passing under settlement or entail, or in cases of intestacy.¹ But, in general, it is neither necessary nor convenient for us to make these technical distinctions; and in this book, as in common language, "inherited property" means any kind of property received from anyone after his death, whether under his will or by legal right.

The laws and customs which determine the nature of the institution of inheritance vary considerably in different countries. In most European countries, for example, when a parent dies, the major portion of his property descends by legal right to his children; while in England a man is legally entitled to leave the whole of his property to whomsoever he wishes. The economic effects of such differences in law are discussed in a later chapter. At present we are concerned with the common and essential characteristic of all systems of inheritance in Western civilisation, which is that a man's property does not revert on his death to the community at large, but passes, whether by law or by custom, to his children, relatives, and friends. Whatever form the laws of inheritance take, the large majority of men and women leave the bulk of their property to their family dependants and relatives. And these are the two most obvious functions of a system of in-

¹ But elsewhere to *legitim* property. (See below, Chapter IV.) There used to be a further distinction between a gift by will or *realty*, called a *Devise*, and a bequest or legacy of *personalty*.

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heritance in modern communities, that it enables a man to continue to support after his death, those whom he loved, or who had a claim on his support, and that it enables a fortune to be kept within a family from generation to generation.

§ 2. "Inheritance," says Taussig, "is an indispensable part of the institution of property."¹ But that is not a literal fact. For there could be a system of private property, which did not involve any right of private persons either to bequeath or inherit, and under which, on the death of their proprietors, all possessions passed to some organisation acting as trustees for the community. There have, also, been primitive societies, in which a man's moveable effects were burnt or buried with him, when he died.

On the other hand, of course, a system of inheritance presupposes the institution of private property in durable forms, that is, either in the more durable commodities or in "intangible" rights to future income, such as are capable of being handed down from one generation to another. In the extreme case, if private property were restricted to articles, such as perishable foodstuffs, which lose all value if not rapidly consumed, the institution of inheritance would be of no effect.

§ 3. In order to see the influence of inheritance (as above defined) in proper perspective, it is important to realise at the outset, *first*, that it is not the only means of acquiring property gratuitously by legal methods, and *secondly*, that it is not the only factor which would tend to make differences in wealth hereditary. Both these considerations are indeed obvious, but their significance is sometimes overlooked.

As regards the *first*—even when we rule out windfall increases in property, resulting from speculation or gambling or pure luck, as not strictly "gratuitous" because of the element of risk or foresight—inherited property is still only the chief species of a genus. For *Gifts between the living* are the great alternative to the transmission of property at death. Thus, even if the institution of inheritance were entirely abolished, if gifts were not also restricted, it would still be perfectly

¹ *Principles*, Chap. 54, Vol. II, p. 251.

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possible for property to pass from the parents to children and for private fortunes to be preserved throughout the generations. The practical bearings of this observation are discussed fully in a later chapter. It is only necessary here to point out that any restraint upon inheritance, which is not accompanied by a restraint upon gifts during life, is likely to increase the importance of the latter as a factor in the distribution of property. Since, however, the bulk of gifts *inter vivos* are nowadays made as advance payments, so to speak, to those who ultimately inherit, the effects of the two methods of disposition on the inequality of wealth do not differ materially. Those who dispose of most of their property by gift during life certainly have rather less time in which to accumulate than those who retain their fortunes till death; but, on the other hand, in the former case, the recipients acquire the property at a younger age and have, therefore, a longer period in which to increase it.

§ 4. Closely akin to inheritance and gifts from parents is the acquisition of property by marriage.¹ Even when no property is actually handed over by either spouse or parents, by way of marriage settlement or dowry, it is still obviously a great economic advantage to marry a rich husband or a rich wife, as the case may be. In general, therefore, when examining the effects of inheritances and gifts, we ought, where possible, to look at the holdings of each household or family unit, and not merely at that of one of the parents or spouses. This is particularly important, now that such a large proportion of the total property is in the hands of women.²

§ 5. While inheritance and gifts of property from parents to children affect chiefly and directly the distribution of property, two other factors have a greater effect in maintaining hereditary differences in earning-power. The first is the bio-

¹ The Law does not consider property obtained in this way as gratuitously acquired, since marriage is held to be a "valuable consideration" where settlements are concerned!

² About thirty per cent. of the property subject to Estate Duty is left by women.

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ogical factor of heredity. It is common knowledge that all men are not born equal, and that they have inborn differences which are determined by differences in their ancestry. It is well known that certain mental and physical defects may crop up generation after generation in the same family; while on the pleasanter side of the picture, the researches of Galton and others give strong grounds for the conclusion that as "long as ability marries ability, a large proportion of able offspring is a certainty."¹ "Ability," continue the Whethams, "is a more valuable heirloom in a family than mere material wealth, which, moreover, will follow ability sooner or later. . . . It may be that the lineal inheritance of material wealth by successive generations will cease to be compatible with the institutions of a future stage of civilisation. But, whatever be the political or social constitution, ability must always make its mark, and remain as a very real form of capital to the individual and the family who possess it. . . . Health, character, and ability are assets which cannot be divorced from the individual. . . . No collectivist state can deprive him of their possession."

These are stirring words, and, in the main, obviously true. Nevertheless it is easy to exaggerate the importance of Heredity as an economic factor. For, in the first place, as regards its general influence, there is the qualification, insisted upon by the same authors, that "the inborn qualities of mankind . . . may be established, maintained, and extended in a family by, and *only by*, appropriate marriages." And there is little doubt that, from the eugenic point of view at any rate, a large proportion of able men make inappropriate marriages. In most families, there is a vast mixing of strains, which, in the course of a few generations, is likely to produce "regression to the normal." This fact is important when we are considering mankind in the mass, rather than the interesting exceptional cases.

In the second place, it is latent capacity rather than active ability that is heritable; whether the capacity remains latent or

¹ Mr. and Mrs. C. D. Whetham, *The Family and the Nation*.

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not must obviously depend on external circumstances and happenings. The fact is that, in tracing the influence of heredity in human families—when it is not a question of some comparatively simple physical or mental *defect*—it is not possible to isolate the influence of environment, although it is often tempting to ignore it. For parents have so many other ways of transmitting to their children their good and bad qualities and their peculiarities, than by the natural processes of marriage and birth.

Lastly, it is evident that such hereditary elements in ability as vitality and intelligence, even if they do always “make their mark,” can manifest themselves in a number of different ways. Whether or not they are diverted into *economic* channels must depend to a large extent on environment; for the characteristics which make a successful captain of industry are not essentially different from those which make a successful general, for example. It is certainly much less common to find economic ability coming out in successive generations than ability in a more general sense. And the reason is not far to seek. Great fortunes are made by those who have not only the capacity but the desire to make them, and the desire is more likely to be strong when ability feels itself restricted and confined by poverty. Hence when a man of economic ability makes a fortune from small beginnings and provides handsomely for his descendants, such ability as the latter inherit is much less likely to manifest itself in economic directions than if they had been left in comparatively poor circumstances. A large inheritance obviously facilitates the acquisition of more material wealth, but at the same time reduces the incentive to acquire it. We shall return later to other implications of this observation.

§ 6. For the above reasons, it is clear that the influence on the distribution of earning power of the biological factor of heredity alone must, in general, be comparatively weak. It is, however, supported by more potent economic factors affecting environment. Quite apart from the influence of unequal inheritances and gifts of actual property, it is obvious

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that, as things are, the well-to-do parent can procure for his children a more healthy environment and a better education than the poor, and can thus equip them for the more highly-paid and attractive employments. It is unnecessary here to elaborate the full nature and importance of such economic advantages. But it is necessary to point out that they must be treated as distinct from those arising from the actual inheritance of property. The former advantages would remain, if inheritance were abolished to-morrow. Nor can they be treated as roughly proportionate to inheritances. For, in the first place, they are, of course, much more evenly distributed, not only because of public expenditure on education and health services, but because, even in the absence of such expenditure, the power of a private income to increase health, strength, and mental ability is obviously very limited.¹ And, in the second place, the more a parent spends out of a given income on improving the health and knowledge of his children, *ceteris paribus* the less he has to invest in concrete property which they can inherit.

¹ In other words the marginal utility of income for these purposes diminishes very rapidly after a certain point, and when very large incomes are reached the total utility is likely to diminish. See on this point Robson, *Relation of Wealth to Welfare*, p. 154, and *passim*. The author, I think, overstates his case in some respects.

CHAPTER III

INHERITANCE AS A CAUSE OF INEQUALITY

§ 1. GIVEN our existing system of private property and contract, there are three main causes of unequal distribution—unequal abilities, as determined by heredity and environment; unequal inheritances and gifts of property; and unequal luck as regards circumstances which it is beyond the power of the individual either to forecast or control.¹ These three factors are not, of course, independent of one another, as each reacts upon the other; and it is therefore a somewhat difficult task to single out any one factor, to trace its influence, and to determine its relative importance, as compared with the other factors. Nevertheless, it is desirable to make the attempt. For, whether we are economists or laymen, any rational opinion as to the effectiveness and merits of policies intended to reduce inequality of distribution, must depend, in the last analysis, on our theories with regard to three questions—*first*, what are the causes of inequality, *second*, how far is each cause inevitable or desirable from other points of view, and *third*, what is the comparative importance of each cause. Economic analysis must, therefore, provide an answer to each of these three questions, if it is to be an adequate guide to public opinion and public policy. The first and third questions are questions of fact. The answer to the second question must always be largely a matter of private opinion or guesswork, since other people's motives and feelings can never be precisely ascertained and we cannot forecast with accuracy how human beings will react to changed surroundings.

§ 2. Modern economic theory has done much to clear up the first question; it is beginning to discuss the second with less prejudice and more attention to psychology; but hitherto

¹ Cp. Taussig, *Principles*, II, p. 246; Cannan, *Wealth*, Chap. XI; Dalton, *Inequality of Incomes*, Part IV, Chaps. I and IV.

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it has done little to examine the third question, largely because the data available are meagre and indeterminate. There is, in fact, no general agreement among economists as to the relative importance of unequal inheritances, as compared with the other causes of inequality.

"Everyone knows," wrote Dr. Cannan in 1905, "that in all except the newest countries, the inequality in the amounts of property which individuals have received by way of bequest and inheritance is by far the most potent cause of inequality in the actual distribution of property."¹ But I doubt if that opinion would command general approval in 1927. The wild fluctuations in prices since 1914, and the growth of the "nouveaux riches" which came about during inflation and the boom period, have called attention to the importance of chance changes in values, as a factor in distribution. Unstable prices magnify the effects of unequal luck and unequal ability in speculation; and it is these that Mr. Keynes, writing in 1926, blames chiefly for unequal distribution, when he writes: "Many of the greatest economic evils of our time are the fruits of risk, uncertainty, and ignorance. It is because particular individuals, fortunate in situation or in abilities, are able to take advantage of uncertainty and ignorance, and also because, for the same reason, big business is often a lottery, that great inequalities of wealth come about."² Dr. Cannan had suggested (in the same article quoted above) that the comparative potency of inheritance as a factor in the distribution of property "is likely to grow, rather than to diminish, in the future. As time goes on, the savings of each generation of men must come to bear a smaller and smaller proportion to the property which has come down to them from previous generations." But against this, one may set the opinion of Sir Josiah Stamp that a century ago "the effect of inheritance and accumulation on distribution was far greater than to-day, when many of the highest fortunes have been made within

¹ *The Division of Income*, pub. *Quarterly Journal Economics*, May, 1905, reprinted in *The Economic Outlook*, pub. 1912.

² *The End of Laissez-faire*, p. 47.

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the lifetime of the holder, without significant initial resources"; and that "taxation and family diffusion tend to reduce the long range inheritance effect in such a way that, even if inheritance ceased altogether, the existence of the very large fortune would be very marked under the influences of other economic factors."¹

It is interesting, on the other hand, to find in America, where opportunities for enterprise and industry to achieve great rewards are generally understood to be greater than in "old" countries like Britain and Europe, that Taussig and Irving Fisher follow Dr. Cannan in stressing the importance of unequal inheritances as a cause of inequality. "The influence of inheritance is enormous," writes Prof. Taussig. "... Obviously this alone explains the great continuing gulf between the haves and the have-nots."² Irving Fisher throws the emphasis on the same factor, when he declares that the distribution of property "depends on inheritance constantly modified by thrift, ability, industry, luck and fraud."³

§ 3. It is evident, indeed, that the institution of inheritance cannot itself be an original or primary cause of unequal distribution. For the chief immediate cause of unequal inheritances in one generation is obviously to be found in the unequal distribution of property in the preceding generation. Theoretically, indeed, great inequalities of inheritance might arise out of a perfectly equal distribution of property in the preceding generation, owing to differences in the fertility of families and—if there were substantial freedom of bequest—in the caprices of individuals. But, in fact, the differences arising from such causes are not likely to give rise to great inequalities. Hence, if we are not to argue in a vicious circle, the causes of unequal inheritances, and of inequalities of wealth generally, must be traced ultimately to differences in the mental and physical qualities of human beings, and the unequal luck attending individual efforts. "No doubt at the

¹ *Economic Journal*, Sept. 1926, pp. 355 and 356.

² *Principles of Economics*, Vol. II, p. 246.

³ *Elementary Principles of Economics*.

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outset," says Taussig, "all differences arose from the inborn superiority of some men over others. The savage chief excels his fellows in strength and cunning. Throughout history the strong and able have come to the fore. They continue to do so in the peaceful rivalry of civilised communities. . . . But at a very early stage in the development of society, this original cause of difference is modified, often thrust aside, by the perpetuation of established advantages. In the feudal system, and in any society organised on the basis of caste, inequality is maintained by force of rigid law. In the supposedly free and competitive society of modern times, advantage still tends to maintain itself. It does so in two ways, through the influence of environment and opportunity, and through the inheritance of property."¹

Thus inheritance perpetuates and may intensify inequalities arising originally from other causes. In that sense, it is a secondary cause of inequality; but that is not, of course, to say that it is of secondary importance. The *extent* of its influence on distribution remains an open question, which cannot be decided merely by theoretical reasoning from general observations and generally accepted premises, but requires in addition something in the nature of a *quantitative* analysis of the relevant facts.² The first step, however, is to examine the nature of that influence, leaving over till later the question of its comparative importance.

§ 4. Given the fact of unequal inheritances, in what ways do they affect the distribution of incomes from the two chief sources—property and labour? The effect on the distribution of property is the most evident. The amount of an individual's property depends on three things: on what he receives by inheritance or gift from the living: on what he saves: and on subsequent changes in the value of his property which he could not predict with certainty and due to causes largely independent of his own action. Thus, for the purpose of preliminary discussion, one may divide an estate into three

¹ *Principles*, Vol. II, p. 246, 2nd edn.

² Such as is attempted in Chaps. V, VI, and VII.

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constituent elements—inheritance, saving, and windfalls. For the moment, one need not maintain the distinction between inheritance and gifts from the living. But one must remember that the second element may be non-existent or negative, if the individual spends beyond his income and thus uses up other people's savings, and that gifts made by him will also modify the total. The third element may also frequently be negative, and ought more properly to be called "windfalls *minus* unexpected capital losses."

I had better say here that such a classification is not strictly scientific, and the distinctions and definitions involved cannot be maintained in practice, unless some entirely arbitrary rule is employed. The same criticism applies to the two-fold classification of property into "inherited" and "saved," insisted on by Prof. Rignano and others. Later on, we shall see the difficulty of interpreting any such classification, when it comes to dealing with the statistics of the question, and with the administrative side of inheritance taxation.¹ But, for the present, the above classification may be retained as convenient and intelligible for our purpose.

As regards the inherited part, clearly the greater the proportion which this bears to the whole property in the aggregate of individual cases, the greater is the relative importance of inheritance, as a factor in distribution.

But the inherited portion is evidently also one of the factors which determine the second or saved portion. For the larger a man's income, the greater will usually be his ability to save, and, since the size of his income is partly determined by the amount of his inherited property, the latter will also partly determine the amount of his saving.

Another factor, which will influence the total amount of his "saved" property, is the age at which a man inherits. If other things (including the length of life) were constant, it is evident that the earlier the age at which a given inheritance is received, the greater the total saving which can be made by the inheritor in his lifetime. It may also be noticed that the

¹ See Chap. XI.

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recipient of a large income chiefly derived from property is likely to be able to save more in his lifetime than one who gets the same income chiefly from work. For the large earned income probably comes to an end some time before the death of the earner, while the income from property—unless the latter be a wasting asset—will last beyond the owner's death. The argument supposes, what is in most cases likely to be true, that the large earned income is not obtained at a much earlier age than the large income from inherited property.

"Windfalls" or capital losses, caused by unforeseen changes in value, do not necessarily affect inheritors of large estates more than other persons, except in so far as inheritors who remove themselves from active business are less likely to foresee changes in values than capitalists who are in closer touch with the market. But apart from its indirect effects on character and business ability, the possession of a large or small inheritance cannot in the nature of things influence increases or decreases in property due to *unexpected* changes in value, except in so far as the *absolute* extent of the change, whether positive or negative, will naturally be greater the larger the amount of the property affected. Nor are such changes likely to aggravate inequalities arising from inherited wealth. For, as Dr. Cannan points out: "If a number of persons are given unequal amounts by chance, and then some other chance disturbs their amounts, there is no reason for supposing that the second distribution will be more unequal than the first."

Accretions of capital due to deliberate speculation may be considered as intermediate between pure "windfalls" and saving proper. These may be facilitated by the possession of a large inheritance, provided, as above, that its possession does not blunt the edge of a man's business acumen or deter him from desiring to acquire more property. In the first place, the possessor of a large capital is in a better position to pick up valuable market information than the small investor. In the second place—and this is perhaps more important—the former can afford to risk not only a larger absolute sum but a

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larger *proportion* of his total capital, and thus stands to gain a proportionately larger amount. On the other hand, in the event of his forecasting proving wrong, he stands to *lose* a proportionately larger amount. But, in the case of intelligent speculation, the chances of gain are *ex hypothesi* greater than the chances of loss.

§ 5. The influence of inherited property on the distribution of incomes from work is naturally less marked than in the case of incomes from property. The great effect on earnings of other hereditary economic advantages of birth and environment has already been discussed, and is certainly more important than that of inherited fortunes by themselves. The recipient of a fortune, which is sufficient to maintain him without any additional income, may decide to do no work, or to do unpaid work. In so far as that is the case, large earnings are not likely to go with large inheritances. On the other hand, the possession of inherited property is undoubtedly an asset to the man who wishes to gain an additional income from work. If the inheritance is sufficient to remove any urgent necessity to get work at any price, he can wait till a sufficiently attractive opportunity presents itself, and is able without difficulty or anxiety to secure the full market value of his services. In the second place, his inheritance may bring with it business opportunities denied to those without the necessary capital and influence.

§ 6. In considering its effects on earning and saving, we ought indeed to distinguish between the passive inheritance of property—of which the extreme example is a settlement invested in gilt-edged securities—which requires no active management by its possessor, and the inheritance of, say, a director's or partner's share in a business, of which the subsequent value will depend largely on the activity and ability of the holder. The large *rentier* inheritor has little incentive to engage in active work for economic ends, and is likely as a rule to make little use of the superior earning-power which his inherited capital indirectly affords. But the inheritor of an active part in a "going concern" has both the incentive

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and the opportunity to increase his property income by the "earnings of management."

Here, again, the age at which the property and the opportunity are inherited is of the utmost importance in its effects on the recipient's earning power. If the inheritance does not come till after middle age, it comes too late for the inheritor to make much active use of it. The latter's career will have been made or marred by that time. Hence it follows that, in general, a *gift* during the parent's lifetime is of more value to an active descendant than an inheritance at the former's death of the same nominal amount. Probably, unequal inheritances alone—as distinct from gifts and from hereditary advantages of birth, education, and early environment—have actually comparatively little influence on the distribution of earnings.¹

But the influence of gifts and inheritances on the distribution of property, both directly as a proportion of the total, and indirectly through their effect on the distribution of savings, is evidently very considerable. And we must remember that, although the share of the total income going to property is smaller than that going to labour (in the broad sense), the former is very much more unequally distributed than the latter and is a more important factor in the inequality of wealth generally than differences in earnings.²

§ 7. Certainly the existence of unequal inheritances and gifts is one reason why property is so much more unequally distributed than earnings. It is not, however, the sole reason.

¹ In an investigation of a sample of some two hundred cases (see Chap. VI) I found that the average age at which the larger inheritances were received was about forty-two years, in the case of men. Over fifty per cent. inherited between the ages of thirty-six and fifty inclusive. Less than one in six inherited under the age of thirty years, and little more than one in ten over the age of fifty-five years. The inheritances taken into account were in the large majority of the cases those coming from fathers. If all inheritances passing collaterally had been taken into account, the average age at inheritance would have come out somewhat higher.

² See Chap. I and Appendix to Chap. I.

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For, as we noticed on a previous occasion, savings are likely to form a larger *proportion* of large than of small incomes, so that even in the absence of private inheritances there would probably be greater inequalities of property than of earnings. But, in such a case, of course, since the ratio of property income to earnings would be much smaller, the way in which the former was distributed would have much less effect on the distribution of incomes as a whole.

§ 8. It is evident that the influence of inheritance on the distribution of wealth must vary in different countries and at different periods, and that its potency as a cause of inequality depends on a number of variable factors. Chief among these are: The laws and customs governing inheritance and bequest; systems of taxation; the extent to which philanthropy is practised by rich testators; marriage customs; the size of families; and the degree of stability of economic and political conditions. With the exception of the modifying effects of taxation, which is reserved for the last part of this book,¹ the comparative effects of the other factors mentioned on inequalities arising from inheritance are discussed in the following chapter.

¹ See Chapters IX, X, and XI.

CHAPTER IV

I

THE COMPARATIVE EFFECTS OF FREEDOM OF BEQUEST AND THE *LEGITIM*

§ 1. THE laws of inheritance which prevail in England and in most English-speaking countries allow a more or less complete freedom of bequest. By the law of England an Englishman can, by his last will and testament, order the disposition of the whole of his property¹ to whomsoever he pleases. In this respect, English law differs radically from that in force in the principal countries of Europe, where a certain portion of a man's property is reserved for the benefit of his family, and only the remainder is at his free disposal. The laws governing the extent and disposition of the reserved portion or *legitim*² exhibit considerable differences in different countries, but some form of *legitim* is to be found in the laws of succession of all the great European states (except Russia, where inheritance was officially abolished after the Revolution) as well as in South America, in South Africa, and in Louisiana. In most of the United States there is no *legitim*, but the State law lays down certain rights of succession for a surviving spouse though not for the children. Scotland alone of the United Kingdom restricts freedom of bequest in the interests of the children; though the *legitim* in Scottish law applies only to moveable or personal estate.³

The most rigorous regulation of inheritance is to be found

¹ Except such as has come to him under a settlement which has force beyond his death, and the portion which the State takes in Taxation.

² Pars Legitima in Roman Law.

³ Under Scottish law if a man leaves wife and children, *one-third* of his personalty goes to the wife; *one-third* to the children, and *one-third* is at his free disposal by will. If he leaves no widow but only children, *one-half* of the personalty is *legitim*.

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in the Code Napoléon, which prevails to this day in France, Holland, and Belgium. The proportion of a man's property which is at his free disposal is regulated according to the number of his children. It is *one-half* if he leaves only one child, *one-third* if two children, *one-quarter* if three children, and so on. If no children survive him, but there are grandchildren, the same *legitim* goes to them as would have passed, to their parents had the latter survived. If the parents of an unmarried or a childless man survive him they alone are entitled to a portion of his property—namely one-half if both mother and father are alive, one-quarter if only one parent. Only where there are no descendants or ascendants in the direct line, may the whole property be freely disposed of.

The *legitim* is divided equally among the children, without distinction of sex.

The Code Napoléon allows no means of evading the *legitim* regulations. They apply to gifts during life as well as to bequests at death. By article 920, "Donations . . . which exceed the portion of the property which can be disposed of shall be reduced to that portion when the succession becomes open." Nor can a man avoid the equal distribution of property among all his children, both male and female, by settlements or entails. For, by Article 896 of the Code, "Entails are prohibited. Every provision by which a donee, an heir appointed or a legatee shall be required to keep property and to return it to a third party, shall be void. . . ." The only exceptions are settlements, restricted to the portion of the parents' property which is *not legitim*, by which the children have a life interest and the property then passes to the grandchildren. Even then such settlements are only valid if the property is to be equally divided among the children, and the property cannot be tied up beyond the second generation.

I have given in some detail the provisions of the Napoleonic Code respecting the *legitim*, because it is the most rigorous and clear-cut of continental inheritance laws. Few Englishmen realise how great is the difference between the European laws of succession and their own, or that the freedom of be-

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quest, which they enjoy, far from being the general rule among civilised peoples, is a privilege peculiar to English law.

§ 3. But it is not an ancient privilege. In the twelfth and thirteenth centuries, the *legitim* was either the general custom or part of the common law of England. Up to the end of the seventeenth century it was enforced, as a special custom, in the ecclesiastical province of York, the City of London, and various districts of Wales. It remains part of the law of Scotland to-day.¹ In cases where the testator left a wife and children, only one-third of his personalty was disposable by will, the remaining two-thirds being the *legitim* divisible between the wife and children. If the testator left a wife only or children only, the *legitim* was limited to one-half.² The *legitim* customs were finally abolished in England and Wales by a series of statutes which followed shortly after the Revolution of 1688.³

The legal right to dispose freely of lands and immoveable property is also of comparatively recent growth, but the ability to do so was not in fact absent in feudal times. "At common law under the feudal system no lands or tenements were devisable by will, except by custom in certain boroughs and in Kent. The difficulty was obviated by the *Doctrine of Uses*; it was held that the *use* of the land might be devised, and accordingly . . . a testator had, for all practical purposes, the right of devising the land itself."⁴ The process was made a little simpler in the sixteenth century, and finally by the *Wills Act* of 1837 real and personal property were put on the same footing, equally disposable by will.⁵

¹ See Pollock and Maitland, *History of English Law*, Bk. II, Ch. VI, § 3.

² The *legitim* was confined to personalty, because in early times realty could not be disposed of by will. See *infra*.

³ Statutes of 1693, 1703 (for York), 1725 (for London), 1695 (for Wales).

⁴ Halsbury, *Laws of England*, under "Wills," Vol. 28, p. 518, footnote; also p. 517, footnote.

⁵ By statute of 1540, land in the possession of testator *at the time he made his will* could be disposed of as a conveyance.

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It seems often to be forgotten by continental writers, who make the common mistake of paying too much attention to English laws and too little to English customs, that the Law of Primogeniture only applies to land which has not been disposed of by will or settlement. In other words, the law only applies in the very few and exceptional cases where the proprietor dies intestate. There is no obligation on the English landowner to leave his estates to his eldest son, if he does not wish to do so, unless it be an obligation imposed by a settlement or entail in the previous generation. "The real means by which owners of land in England are enabled to keep land in their families for a lengthened period of time is the great liberty which the law allows in disposing of every kind of property by deed during life, or by last will and testament to take effect upon property after death."¹

§ 4. The ability by will and settlement to obtain posthumous control over one's property has two important limitations in England. By the Rule against Perpetuities a man cannot "tie up" his property for more than two generations.² This Rule applies to all forms of property, real or personal, but it does not prevent descendants re-establishing the entail for another period if they so wish. By the Rule against Accumulations, a limit is put to the period during which a testator may direct that the income from his property shall accumulate at compound interest, unless the accumulation is bequeathed for the reduction of the National Debt.³ Similar laws of a more or less rigorous nature limiting the period of trusts and entails are to be found in other countries, where they are not ex-

¹ Eyre Lloyd, *Succession Laws in Christian Countries*.

² The "perpetuity period" is lives in being plus twenty-one years plus a period for gestation.

³ There are alternative time limits—twenty-one years from testator's death, or the minority of the heir or legatee. By the Superannuation and other Trust Funds (Validation) Act, 1927, the Rule against Accumulation does not apply to trust funds bequeathed for the reduction of the National Debt—provided the Treasury agree to accept them.

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pressly forbidden, as under the Code Napoléon.¹

§ 5. I do not propose here to enter into a discussion of the merits and demerits of different systems of inheritance laws from the standpoint of social ethics, but only to consider their comparative effect on the distribution of property. We may take as the two extreme examples of different types of inheritance law, the Code Napoléon, with its rigorous provisions for an equal distribution of the parents' property among their family, and the English system of freedom of bequest, coupled as it is with the custom of primogeniture in the disposal of land. Is there a great contrast in the effects of the two systems on the distribution of property? Many writers have thought so.

De Tocqueville, one of the first writers on social and economic subjects to realise the importance of inheritance laws, but not the most logical of thinkers, has drawn a vivid picture of the contrast between the effects of the English and the French systems. "Framed in one way," he writes, "the law of succession combines and concentrates property and power in a few hands: it causes a landed aristocracy to flourish. But guided by other principles, and framed on other lines, its action is even more immediate: it divides, distributes and disperses both property and power . . . until by its incessant activity the bulwarks of the influence of wealth are ground down to the fine and shifting sand which is the basis of democracy." "In countries where the legislature has established an equal division of inheritances, property and particularly landed property must have a permanent tendency to decrease." In a country like France where families are small, this tendency would take some time to make itself felt, but the law has also a psychological effect on landed proprietors, who see that in

¹ Eyre Lloyd, *op. cit.*, writing 1877, states that entails and trusts are permitted in Austria and Bavaria as far as the first generation unborn in German Common Law, in Russia, Portugal, Saxony, Servia, South America (except Bolivia and Brazil), in Valais, Vaud, and Würtemberg. Entails were prohibited in Bolivia, Brazil, France and Netherlands, Cantons of Grisons and Lucerne, Norway, Venezuela, and Spain.

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the course of time their land will be entirely dispersed and are therefore tempted to sell it. "Thus not only does the law of successions make it difficult for families to preserve their estates intact, but it takes away their desire to try and makes them co-operate, so to say, in encompassing their ruin. . . . In these two ways, it strikes at the root of landed property and rapidly disperses families and fortunes." Its influence is "perpetually conspicuous in our country (in France), overthrowing the walls of our dwellings and removing the landmarks of our fields."¹

De Tocqueville was, on the whole, favourable to the French system of equal partition among the family, as an instrument of social democracy. But for that very reason others have criticised it the more severely. "When the English wished to put the finishing stroke upon the slavery of Ireland," wrote Montalembert in 1857, "they passed a law in 1701 by which the freehold property of a deceased papist should be equally divided among his children, unless the eldest became a protestant, in which case he could become exclusive heir to the whole. When they came to repent of their long injustice towards their victim, the first act of gradual emancipation was to abrogate this law in 1778, and thus to re-establish for the Irish papists the dignity and independence of property." He added that "as long as the present law (of succession) may exist in England, so long as it sustains no change beyond restraint from abuse and improvement in its maintenance, the future of England is assured. The storm will not seriously rage against her until the day when a movement of public opinion declares itself against entails. Then, but not till then, will she set out upon that downward path which precipitates people, after passing through the shocks of revolutions, into the lowest depths of despotism."²

But the contrast which De Tocqueville and others have drawn between the effects of the French and English laws of

¹ De Tocqueville, *Démocratie en Amérique*, Vol. I, pp. 57-8 (13th Ed. 1850). (There is an English trans. by Henry Reeve.)

² Quoted by Eyre Lloyd, *op. cit.*, pp. 28-9.

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succession is quite evidently an exaggeration, and De Tocqueville's argument exhibits a number of logical flaws. It is not true, for example, that under the French system "property must have a permanent tendency to decrease." If there is no saving, and while population increases the total amount of property remains the same, then, whether the *legitim* is in force or not, the average property per head must decrease. But there is no necessary reason why the *legitim* law should prevent capital from keeping pace with population. De Tocqueville, accustomed to a mainly agricultural country, was evidently thinking rather of the decrease in the physical extent of landed estates. But in this sense also, his remark is unjust to the *legitim*. Since the land of a given territory is limited in extent, there must be less of it per head as population grows, and some children therefore must get less than their parents. At the same time, it must not be forgotten that the *value per acre* is generally likely to increase with the demands of a growing population. Under the French system, the reduction in extent per head is noticeable, because each child gets a smaller holding; while in England where the custom of primogeniture in land prevails, the eldest child gets the same size of estate, while the other children go without.

But the custom of primogeniture in England is not only not compulsory, but it applies solely to landed estates. Its historical influence in conserving landed property in a few hands is not disputed, and, in earlier times, when land was the chief form of property, it must have had considerable economic importance in increasing inequality. But to-day and in the last century or so, landed estates have ceased to be the most important form of property in this country.

§ 6. There is, however, evidence that English possessors of very large estates, whether invested chiefly in personal or in real property, frequently favour one particular son, though not necessarily the eldest. Such cases are not confined to those with hereditary titles, who generally leave the lion's share of the estate to the eldest son.¹ It is also common, in the very

¹ See below, Chap. VI, pp. 164-5.

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wealthy classes, for the sons to receive a larger share than the daughters. In the case of moderate and small estates, however, equal division of the estate among surviving descendants is much more common. The fact is that English parents are not uninfluenced by the ideas of family justice on which the continental law of *legitim* is obviously based. Where there is no more than enough to provide a "moderate competence" for each child, equal division of the estate is likely to be the general rule. But, where the estate is large enough to secure for each child that state of comfort and affluence to which he or she has become accustomed, and still to leave a large surplus, that surplus is likely to be left to the son who inherits his father's position in life, whether as a business man or a landed proprietor.

Occasionally, indeed, that surplus may be left to charities and employees. But it is very rare, in England, for a parent with surviving issue to leave any considerable *proportion* of his estate to charities, however much childless men and women, with no family claims on them,¹ may do so. And the latter, under the law of *legitim*, would have substantial freedom of bequest.

On the whole, therefore, it may be concluded that, in practice as in theory, the *legitim* is less favourable to the concentration of property than freedom of bequest. But the difference in the effects of the two systems has often been greatly over-estimated, and the law of *legitim* is not the potent instrument for levelling inequalities that De Tocqueville and others suggest. The most a rigid enforcement of the *legitim* can do is to prevent the inequality of inherited wealth from increasing.

It is an error to suppose that the constant partition of the estates of parents among their children in equal portions must necessarily reduce the inequalities arising from inheritance, as population increases. For, in the extreme case, if all families were the same size, and in each family all the heritable property was equally divided among the children, the relative

¹ See next section.

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inequality of distribution would remain the same as in the previous generation, except for the modifying influence of fresh accumulation and fortuitous changes in values. But there is no reason to suppose that fresh accumulations will necessarily reduce inequalities of inherited property, and we know that the extent of a man's saving is partly determined by what he has inherited. If there were no fresh accumulation, and property values remained stable, each estate, under the law of *legitim*, would in course of time naturally become smaller and smaller; but the diminution of individual estates would be in exactly the same ratio for all classes. Their relative position would remain unchanged.¹

§ 7. Actually, property in France does appear to be rather less concentrated than in Britain, though the difference in this respect is less than has sometimes been asserted, and not nearly so marked as that, for example, between Britain and Australia. According to the French official statistics relating to the tax on Successions, about 30 per cent. of those dying aged twenty-five years and over in the years 1909-13 left estates in excess of 2,000 fr. (£80). In the United Kingdom, on the other hand, the Estate Duty figures for the years 1911-13 show only 17½ per cent. of decedents over twenty-five leaving property in excess of £100. The £100 limit and the

¹ I do not understand Sir Josiah Stamp's contention that "so far as all past wealth is concerned, without accumulation and concentrative power for new wealth being fully maintained, there must be an increase in equality if wealth is left to *all* the children. . . ." (*Econ. Journal*, Sept., 1926.) For, as he himself goes on to point out, "if five per cent. of the adult population own half the property, then in two generations (assuming a similar birth-rate to the general) without any new accumulation and say three times the total population, this five per cent. would still own one-half, but they would be three times as numerous, and their individual shares only one-third the size." By what definition or measure of inequality can the final distribution be found *less* unequal than the first? If, indeed, we adopt Dr. Dalton's view that "*proportionate subtractions* from income increase inequality," then, in the above example, the distribution would become *more and more unequal*. (See Dalton, Appendix to *Inequality of Incomes*.)

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2,000 franc limit may perhaps be taken as roughly comparable, because not only was the value of property per head in France rather lower than in Britain, but evasion and understatement were certainly much greater. At the top of the scale in France, we find 0.1 per cent. of the decedents leaving estates of over one million francs (£40,000), as against 0.18 per cent. in Britain with over £50,000. This class left over 40 per cent. of the total property passing at death in Britain, but only 27 per cent. in France. 19 per cent. of the decedents in France were in the 2,000 fr. to 10,000 fr. class (£80 to £400) as against 9 per cent. in Britain in the £100 to £500 (net) class.

These figures are not very reliable indices, because in the first place the relative extent of evasion and understatement in France and in Britain is not known, and in the second place, the relative ages and death-rates of property-owners in different classes are not the same as in Britain. Nevertheless, there are clear indications that those with small properties form a larger class in France than in our own country. But the property of French peasants and *petits bourgeois* accounts in the aggregate for a very small proportion of the total. The richest 1.4 per cent. of decedents (over twenty-five years of age) with estates over 100,000 frs. were found to leave about 60 per cent. of the aggregate property, while the same *proportion* of the people dying in Britain left a little over 70 per cent. of the total. The difference between the degree of concentration in the two countries is not, therefore, very important from a practical point of view, when one looks at relative inequality rather than at the numbers of small property owners, without reference to their share in the aggregate.¹ Nor can the difference, such as it is, be ascribed entirely or even mainly to the different laws of inheritance. For the more extensive practice among Frenchmen of making gifts during life to their children would contribute partly to the same result. Moreover, one would expect, on other grounds, to find a rather greater degree of inequality in the more highly industrialised country.

¹ See note at end of chapter.

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§ 8. The wider diffusion of landed property in France, and the continuous sub-division of holdings, has repeatedly been ascribed to the action of the law of *legitim*. But John Stuart Mill's refutation of this theory was obviously logical and sound. He points out that the division of an inheritance does not necessarily involve division of the land, "which may be held in common, as is not infrequently the case in France and Belgium; or may become the property of one of the co-heirs, being charged with the shares of the others by way of mortgage; or they may sell it outright and divide the proceeds." And he rightly concludes that "in all countries in which the division of inheritances is accompanied by small holdings, it is because small holdings are the general system of the country, even on the estates of the great proprietors."¹ The fact is that, as De Tocqueville himself has been careful to point out in another context, the sub-division of estates was the subject of remark in France before the Revolution of 1789, at a time when, under the ancient law of France, entails were still permitted, as in England.² The difference in the distribution of land as between France and England must, therefore, be traced to differences in social characteristics and institutions, other than the laws of succession; and the latter themselves owe their special forms not so much to political accident as to differences in character and custom.

¹ Mill, *Principles* (7th edition), Vol. II, Bk. V, Chap. IX.

² See De Tocqueville, *France before the Revolution of 1789* (Reeve trans.), p. 22: "It is a vulgar error to suppose that the sub-division of landed property in France dates from the Revolution." Turgot wrote in 1770 that "the division of inheritances is such that what sufficed for a single family is shared among five or six children," and an Intendant reported about 1780 that "Inheritances are divided in an equal and alarming manner; and as everyone wishes to have something of everything and everywhere, the plots of land are infinitely divided and perpetually subdivided." Arthur Young, before the Revolution, was struck by the large number of small estates of peasant owners.

Entails in perpetuity seem to have been allowed before 1560, when the Ordinance of Orleans limited them to two generations. (Eyre Lloyd, *op. cit.*)

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NOTE ON COMPARATIVE DISTRIBUTION OF WEALTH IN FRANCE AND BRITAIN

The following table of French estates passing at death is based on the French official figures for the average of the years 1909-13, which are reproduced in Colson, *Cours d'Économie Politique*, Vol. III, pp. 407-10. For individual years, see *Annuaire Statistique*. All estates over the value of one franc are supposed to come under review by the taxing authorities. But there is certainly a large amount of evasion and understatement at both ends of the scale. Note also that the taxable value of *donations* in the same period was about £44 millions a year (1,110 million francs), which is certainly considerably higher than the British pre-war total of gifts *inter vivos* subjected to Stamp Duty. (See my estimate in Chap. X, p. 247.) One possible result of the extensive gifts and marriage settlements in France is that (according to a rather shaky estimate of M. de Séailles based on figures for 1900) the average estate of the French citizen actually *diminishes* progressively from the age of fifty onwards (see Strutt, in *S.J.*, June, 1910), while that of the British property owner increases up to the most advanced age. It follows that the average age of the holder of a unit of property would be lower in France than in England, and that, in the construction of a table of distribution among *the living* based on the figures for *successions*, the general "multiplier" would be higher than in England, and the "multiplier" applicable to the larger estates would be *relatively* higher than in England. Hence, distribution of property *among the living* in France would be likely to approximate more closely to the English model than the distributions *at death* suggest.

The Death Duty figures for the United Kingdom in the years 1911-12 and 1912-13, are given for comparison, as well as the percentages for Great Britain in 1924-5. In each case, as in the French figures, I have taken the number of decedents (men and women) over twenty-five years of age as the total with which to compare the number of estates in the different classes. The figures for the value of property left by those with less than £100 (£11 millions in 1912, £18 millions in 1924) are of course largely guess-work. They are obtained by taking Professor H. Clay's estimate of the value of capital held by the *living* under the £100 limit, both before and after the War, and dividing it by the "multiplier" applicable to the lowest class of estates distinguished in the official statistics. (Clay, *Distribution of Capital*, Manchester Statistical Society, 1925.)

While the richest 1.4% of decedents left 60.6% of the aggregate property in France, 1909-13, it may be estimated that the same

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Range—with English equivalent at 25 fr. = £1.	France—Successions 1909-13.			
	Number.	Mill. francs.	No. % of all over 25.	Amt. % of Total.
Not included as leaving property (over 25 years of age)			%	%
0-500 fr.	200,000	— ?	53·2	0·5
(0-£20)	99,540	25		
500-2,000 fr.				
(£20-£80)	96,100	120	17·0	2·14
2,000-10,000 fr.				
(£80-£400)	105,460	528	18·7	9·45
10,000-50,000 fr.				
(£400-£2,000)	46,960	994	8·34	17·7
50,000-100,000 fr.				
(£2,000-£4,000)	7,700	530	1·37	9·5
100,000-1,000,000 fr.				
(£4,000-£40,000)	7,280	1,885	1·29	33·7
Over 1,000,000 fr.				
(Over £40,000)	570	1,502	0·101	26·9
Total * declared over nil	363,600	5,584		
Total *	564,000	mill. frs.	100·0	100·0

* This total includes some 14,000 *declared* estates left by those under twenty-five. This figure is taken from an official table of the age distribution of French estates in 1906 quoted by H. C. Strutt in *S.J.*, June, 1910.

Range.	United Kingdom, 1911-13.		Great Britain, 1924-5.	
	No. % of all dying over 25 years.*	Amt. % of Total.	No. % of all dying over 25 years.	Amt. % of Total.
	%	%	%	%
Under £100 (aged over 25 only)	82·5	3·80	73·8	4
£100-£1,000	11·99	6·89	16·78	6·2
£1,000-£5,000	3·74	13·51	6·40	14·1
£5,000-£10,000	0·82	9·38	1·41	10·0
£10,000-£25,000	0·60	14·25	1·00	15·6
£25,000-£50,000	0·22	11·5	0·34	11·8
£50,000-£100,000	0·109	10·9	0·15	9·9
Over £100,000	0·076	29·7	0·106	28·4
	100·0	100·0	100·0	100·0

* The total includes in 1912 about 400 (out of 70,500), and in 1924, 800 (out of 105,000) estates over £100 left by those *under* twenty-five years.

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proportion of the decedents in Britain left 72% in 1912, and 63% in 1924. The difference in these proportions, as between pre-war France and post-war Britain, is, therefore, very small.

A very rough estimate of the distribution of *incomes* in France, in the years 1899-1901, is given in Colson, *op. cit.*, Vol. III, p. 420. 14% of the families are estimated to have got a little over *one-fifth* of the aggregate income, and *one-half* of the aggregate went to the richest 11.3% of families. In the United Kingdom, according to Professor Bowley, a little over 1% of the separately assessed incomes accounted for 30% of the aggregate in 1910; while, after the War, Sir Josiah Stamp reckoned that *one-ninth* to *one-tenth* of the people got half of the aggregate income, before taxation was deducted (*Wealth and Taxable Capacity*, p. 95). But in view of the rough nature of the French figures, and the fact that they refer to *ménages*, while the British figures refer to individual incomes (though counting husband and wife as one), the comparison does not suggest that the distribution of incomes in France is much less uneven than in Britain.

CHAPTER IV (*continued*)

CHARITABLE BEQUESTS AND THE DISTRIBUTION OF INHERITED WEALTH

§ 1. It is clear that voluntary bequests for charitable purposes may have the same effect as a progressive Death Duty in moderating the inequality of inheritances, just as charitable gifts during life modify to some extent the inequality of incomes. What we are concerned to know is how far the private philanthropy of testators does in fact have this equalising influence on inherited wealth.

We have already observed that on the Continent the law of *legitim* restricts the proportion of his property which a man with a family may bequeath to strangers. But, in England and America, no such legal restriction exists to check the impulses to charity. The great sums bequeathed by Carnegie and by Rockefeller for the benefit of research and education have frequently been held up as shining examples of one of

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the ways in which the community at large benefits from the existence of millionaires. It is generally agreed that such noteworthy examples of prudent generosity are rarer on this side of the Atlantic. Mill observed, in the middle of the last century, that "in England, whoever leaves anything beyond trifling legacies for public or beneficent objects, when he has near relatives living, does so at the risk of being declared insane by a jury after his death, or at least of having the property wasted in a Chancery suit to set aside the will."¹ Cases may be quoted from the present century which show that that danger has not yet passed,² at least so far as concerns bequests to public authorities.

Nevertheless, readers of the newspapers in this country are often impressed by the daily lists of substantial sums bequeathed to the churches, to philanthropic and educational institutions, as well as to domestics and employees.

§ 2. If, however, one looks more closely at these lists, it is seen that such bequests, though often substantial in relation to the probable wealth of the recipients, usually form only a small proportion of the total estate of the bequeather. I have taken note of all the estates of over £50,000 gross value unsettled, of which particulars were published in *The Times* during the two months February and March, 1925, and have assessed roughly in each case the *proportion of the total* estate bequeathed to employees or for philanthropic purposes. The results may be tabulated as follows³:

¹ See *Note* to p. 283 of Vol. I of 7th Edition of *Principles*, Book II, Chapter II.

² See cases quoted on pp. 305-6 of Dalton's *Inequality of Incomes*. In 1913 a Mr. Johnson bequeathed £7,000 to certain hospitals under the Metropolitan Asylums Board. A member of the Board was unwilling to accept the money, holding that no person of sound mind could leave money in relief of rates. In 1919, a Mr. Wallace left £250,000 to the British and Indian Treasuries, unless his son should secure a title and thus require a more liberal provision than had been made for him. The bequest was subject to a lawsuit but was eventually upheld.

³ In the two months in question, 118 estates over £50,000 were mentioned, and the list may be taken as very nearly complete

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Estimated Proportion of Estate bequeathed to Charities and Employees, etc.	Number of Estate (over £50,000).
Nil and under 1%	75
Over 1% and under 5%	22
Over 5% and under 10%	6
Over 10% and under 20%	none
Over 20% and under 50%	4
Over 50% and under 100%	8
 All	 115

It will be noticed that in the case of five-sixths of those leaving over £50,000, bequests of a charitable nature amounted to less than 5 per cent. of their property. As would naturally be expected, nearly all the proportionately large bequests were left by those with no family to consider. But I should add that the majority of these bequests, in, say, the over 20 per cent. class, were in the form of reversions, which will become the possession of the philanthropic legatees after certain life-

(though *settled property* is excluded). Of the 118, ninety-four received detailed notices in *The Times*, twenty-four only being relegated to the list of "other wills" in small type. In fifty-one cases, no bequests to charities or employees were mentioned, and it may be assumed that either there were none or that they were negligible in amount. In the other sixty-seven cases where bequests of a charitable nature were mentioned, *The Times* office states that such bequests are given in full. In three cases, it was not possible from the details of the bequests as published to make any sort of estimate as to the amount bequeathed to charities. In other cases, it was often impossible to make more than a very rough estimate of the value of bequests, which are often in the form of annuities, and sometimes in the form of a year's wages to employees, whose wages and number are not known. Throughout I took ten years' purchase of annuities. In the case of *reversions*—and where the greater part of an estate is bequeathed to charity, it is usually as a reversion after death of those with a life interest—I have taken into account the *full ultimate value* of the bequest—not its present discounted value, which cannot be properly estimated—in reckoning the proportions given in the above table.

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interests in the will, enjoyed by relatives, have ceased. I have counted in the value of those reversions as though they were bequeathed for immediate possession. Their actual value is, of course, much less; so that I have over-estimated the proportions in certain cases.

The gross capital value of the 115 estates in question was approximately £16,391,000. A rough estimate of the total value of the bequests to employees and philanthropic bodies—taking the immediate possession value of reversions—is about £1,330,000 or 8.1 per cent. of the total. But reversions make up a very large proportion of this sum (about £895,000 or two-thirds), and the *present* value of the bequests would form a very much smaller percentage of the total capital value of the estates. On the hypothesis that, in the case of reversions, the preceding life interests cease in a little under thirty years, the present value of all the bequests would be little more than half the above-mentioned figure, and the proportion would be about 4 per cent. instead of 8 per cent.¹

It is interesting to notice that the proportion bequeathed to individual employees and domestics is, on the average, very much smaller than that left to institutions. Bequests of the former kind formed less than *one-half per cent.* of the total value of the estates.

These results are not, of course, thoroughly dependable. *The Times* lists of Wills and Bequests are not published with an eye to quantitative analysis. There may be omissions in the published information,² and my assessments of the value of certain bequests may in some cases be far from correct. But the Legacy and Succession Duty statistics point to the same general conclusion, that, in Britain, bequests of a charitable nature do not, as a rule, reduce appreciably, or, at least,

¹ The present value of a reversion of £100 after twenty-eight years—with the rate of *interest* at 5% (rate of *discount* at 4.76%) is about £25. The present value of reversions totalling £895,000 is, on the above hypothesis, about £223,000; and the total present value of all bequests becomes £656,000 (4%) instead of £1,328,000.

² Though, see footnote 3 to p. 104.

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anything like so much as taxation, the amount available for the dead man's family.

§ 3. The proportion of the total property paying Legacy and Succession Duties, bequeathed to persons and institutions outside the family or to very distant relatives, has not altered greatly for many years, and averages a little over *one-tenth* (10 to 11 per cent.). This figure is, however, misleading; for about half the value of the total estates passing each year is exempt from these two Duties, and the exemption limits are much higher for property passing to near relatives than for bequests to strangers. The actual proportion of the total formed by the latter is therefore considerably less than 10 per cent., and, in the case of all estates over £1,000, may be estimated at between 6 per cent. to 7 per cent. This figure covers any bequests to wealthy friends outside the family as well as those to poor dependants and charities. The proportion does not appear to be appreciably different, as between the pre-war and post-war years.¹ The great increase in taxation in

¹ Practically all bequests to strangers and distant relatives (beyond the fourth degree), made out of estates exceeding £1,000 in value *unsettled*, are subject to Legacy and Succession Duty at the maximum rate (see summary of provisions in 65th Rept. of Inland Revenue Commissioners, pp. 45-8). Bequests of articles of artistic and historic interest, etc., are exempted, but the value of such objects exempted in 1925-6 amounted to little more than half a million £. Inheritances and bequests taxed for Legacy and Succession Duty in any year are not necessarily in respect of estates passing in the same year, for the former duties generally become payable when the beneficiary becomes entitled to the enjoyment of his inheritance. Thus reversions, etc., may come into the Succession or Legacy Duty figures in respect of estates passing many years before. Nevertheless, for the purpose of making an estimate of the approximate proportion of estates bequeathed to strangers, the Legacy and Succession Duty figures for such bequests may be compared with the total value of estates in excess of £1,000 for a series of years, and an average struck, especially as the proportion does not change much from year to year. But the latter total ought to be reduced by an amount equal to, say, one-fifth or one-quarter of the estates in the £1-5,000 class, in order to allow for the exclusion of estates of which the *unsettled* portion alone does not exceed £1,000. The

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recent years has apparently had little effect in checking the proportion of philanthropic bequests, though several testators refer to it as a deterrent. Differences in temperament, and

following table gives a comparison on these lines for certain pre-war and post-war years.

UNITED KINGDOM.

Year.	(1) Estates passing in excess of £1,000 <i>net</i> .	(2) Estimate of Estates in excess of £1,000 <i>unsettled</i> .	(3) Capital passing to Strangers and Distant Relatives, Subject to L. & S. Duties.	(4) Col. 3 % of Total in Col. 2.
	£ mills.	approx. £ mills.	£ mills.	
1911-12	260.32	250	15.38	6.1
1912-13	259.35	250	16.74	6.7
1913-14	275.29	265	18.25	6.9
3 years Average 1911-13		255	16.8	6.6
1920-1	363.05	350	22.17	6.3
1921-2	388.79	375	23.48	6.3
GREAT BRITAIN ONLY.				
1922-3	402.83	388	27.18	7.0
1923-4	413.73	400	24.11	6.0
1924-5	431.33	415	26.20	6.3
1925-6	426.85	410	24.32	5.9
Average of 4 years 1922-5		403	25.5	6.3

Note that the figures in columns 3 and 4 include bequests to strangers of same social status as testator, and are not confined to charitable bequests.

On grounds suggested by general reasoning as regards ability to pay, one would expect to find that on the whole philanthropic be-

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the existence or absence of family dependants are obviously much more important factors.

§ 4. If in Britain the proportion of dead men's wealth bequeathed to charities and poor dependants is small, it might perhaps be expected that in other European countries it would be even smaller. For, as we have seen, the law of *legitim* restricts philanthropic as well as spiteful impulses in the interests of the next of kin. However large the fortune of the married citizen who observes the *Code Napoléon*, only a fixed

quests form a larger *proportion* of large than of moderate and small estates. The official figures give no guidance on the subject at present. It will be remembered that in the case of *The Times* sample of 115 estates of over £50,000, the proportion—reckoning reversions at their full ultimate value—was about 8%. In the case of forty-seven estates over £100,000 in the same sample the proportion was about 8·6%. These figures taken in conjunction with the estimate of something *less* than 6½% for all estates over £1,000 indicate that the proportion is, on the whole, “progressive.” But the two sets of figures are *not* comparable in this way, in view of the difficulty introduced by the question of reversions, the rough nature of the estimates in the case of *The Times* sample, and the considerable margin of error involved in the latter case. As regards the last factor, it may be mentioned that if 8% be assumed to be the correct proportion in the case of the particular sample chosen, the percentage for all estates over £50,000 is likely to lie between 6% and 10%, since the “probable error” is 2% either way (and between 2% and 6%, if reversions are discounted thirty years ahead).

As regards reversions, these will usually appear at their full value in the Legacy Duty figures *when they revert*; but, in reckoning the proportion in the case of *The Times* sample, they are put in at their full nominal value, *when they are bequeathed*. If the aggregate value of estates remained fairly stationary from year to year, and the proportion bequeathed to strangers by way of reversions after a life interest were constant, this discrepancy should make no difference to the comparability of the two sets of figures. But since some of the reversions coming into the *post-war* Legacy Duty figures will be in respect of estates passing before the War at a lower level of prices, the percentage in respect of these figures will naturally come out lower than if reckoned on the same basis as in the case of *The Times* sample. This consideration must also be taken into account, when comparing the *post-war* with the *pre-war* percentage.

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proportion of his property is at his free disposal, and there is a legal limit to the extent to which voluntary bequests for public and charitable purposes can modify the inequality of inheritances. It must be remembered, however, that those who have no descendants and are, therefore, most likely to consider the claims of charity, have the major portion of their property at their free disposal. In the large majority of cases there is probably no desire to overstep the legal limit.

The French official figures, which show the disposition of inheritances and bequests, as well as *donations* during life, among different classes of relatives and strangers are instructive on this point. Officially, all French estates in excess of one franc come within the purview of the taxing authorities. Actually there must be a considerable amount of evasion which would affect the totals but would hardly materially alter the proportions passing within and outside the family. The figures for 1912 and 1913 are as follows¹:

The proportion bequeathed away from the family, about 5½ per cent. in each of the two years, is little less than the British figure of about 6½ per cent. But the proportion bequeathed to public and charitable institutions (less than 1 per cent.) seems to be very much less than in Britain, if one may judge from my estimates in connection with estates of over £50,000.² Since, however, the total proportion going to strangers is little less than in England, the smaller proportion of bequests to philanthropic bodies must be ascribed to differences in custom rather than to the legal restriction of the *legitim*.

§ 5. Gifts to charities during life do not come into consideration here. But it is very probable that, in Britain, they are more extensive than bequests at death. For it is well known that many wealthy people spend each year a consider-

¹ See *Annuaire Statistique*, 1913, p. 208, and 1914-15, p. 267.

² In the case of *The Times* sample, the proportion bequeathed to institutions was reckoned at about 7½% (counting reversions at full nominal value), and about 3½% counting value of reversions as discounted thirty years ahead.

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	BEQUESTS AND INHERITANCES.		DONATIONS <i>Inter vivos.</i>	
	1912 (@ 25 fr. = £)	1913 (@ 25 fr. = £)	1912 (@ 25 fr. = £)	1913 (@ 25 fr. = £)
	million £		million £	
Children, Grandchildren, Parents, Grandparents, etc.	148-01	145-95	41-77	43-18
To Spouses	22-19	20-29	0-057	0-052
Brothers, Sisters, and other Collateral Relatives . .	35-68	39-92	0-423	0-615
TOTAL within Family .	205 88	206-16	42-250	43-747
Private Individuals not related	10-87	10-40	0-141	0-274
Public and Charitable Bodies, Educational Institutions, etc. . .	1-574	1-547	0-105	0-134
TOTAL outside Family .	12-44	11-95	0 246	0-408
GRAND TOTAL	218-32	218-11	42-50	44-26
Proportion passing outside Family	5-70%	5-48%	0-58%	0-92%
Including Proportion to Charities, etc. . . .	0-72%	0-71%	—	—

able proportion of their income in this way. If one is going to be philanthropic it is naturally more pleasant to give while one is alive to enjoy the direct and indirect results of one's generosity.

It is almost certain, though no official figures on the subject have come to the writer's notice, that in the United States a much larger proportion of rich men's wealth is given during lifetime and bequeathed at death to philanthropic institutions than in our own country or in Europe. It was Lord Ashley's opinion that "private munificence moved by the spirit of high public duty has never been shown on a larger scale than by American plutocracy working in a democratic atmosphere. But Irving Fisher, writing with more recent experience, con-

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siders that large philanthropic bequests are now becoming less common.¹ There seem to be two important traits in the character of American life which have stimulated the philanthropy of rich men, and have given it an economic importance which it does not possess in Europe. In the first place, there is in America a general belief in the opportunities available for hard work and enterprise to win large fortunes—and indeed such opportunities are more evident than in our own country—so that the acquisition of “self-made” wealth is held in higher esteem than the enjoyment of a large inheritance. The wish of the British “self-made” man to turn his sons into gentlemen of leisure, and the contempt for “trade” which is still in evidence among the British aristocracy, are not understood on the other side of the Atlantic. Hence the desire to leave a fortune to one’s descendants, which shall place them for ever or for as long as possible outside the reach of economic cares, is not so intense in America.

In the second place, it is well known that in America there is a much greater dependence on voluntary contributions, rather than on taxation, for the relief of poverty and for other social purposes. It is very doubtful if taxation added to voluntary gifts and bequests forms as large a proportion of the rich American’s as of the rich Englishman’s wealth. It is not our concern here to decide between the merits of the voluntary and compulsory methods of raising social funds. But it has been obvious, at least since the days of the Tudors, that, from the fiscal point of view, taxation is a more satisfactory expedient than exhortations to private beneficence. It is also certain that it is likely to be a more efficient method of reducing inequality than the encouragement of philanthropic bequests. But with the comparative utility to mankind of voluntary gifts intended for the increase of health, knowledge, and happiness, and public expenditure out of taxation with the same end in view, I am not here concerned.

¹ See Dalton, *op. cit.*, p. 304.

MARRIAGE AND THE SIZE OF FAMILIES

CHAPTER IV (*continued*)

III

MARRIAGE AND THE RELATIVE SIZE OF FAMILIES

§ 1. IF we suppose that all the property left by parents is divided equally among their children, it is obvious that the amount inherited by each child would depend on two things—the amount of property possessed by *both* father *and* mother together, and the size of the family. Differences in the fortunes of wives, in the first instance, and in the number of children which they bear, in the second, constantly modify the general rule that the richer the father the larger the inheritance of the son. Even if the second variable were a constant, a table of distribution, in which the estates of mothers and fathers are treated as separate items,¹ would not enable an accurate forecast to be made of the order of distribution of inheritances among the children. As the amount of property in the hands of women increases, the influence of marriage as a modifying factor becomes more considerable. In earlier times, when land was the chief form of property and the laws of succession favoured the male, it was the property in the hands of the fathers that chiefly counted, though that itself was partly determined by the fortunes of the families with which they were connected by marriage. But, in modern Britain, the property of the mothers can by no means be dismissed as of small importance. About 30 per cent. of the private property in England is to-day owned by women.

§ 2. If most rich men married poor wives, and most rich women married poor husbands, the inheritances of the children in successive generations would tend to become much more evenly distributed. Unfortunately this result is not achieved, since it is a matter of common knowledge that most men marry women in the same social class. Nevertheless, differences between the social classes no longer correspond to differences of economic position and it is by no means generally true

¹ As in our Estate Duty statistics.

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that the richer men marry the richer women. To some extent, therefore, marriage of the relatively poor with the relatively rich may cause the inheritances of the children to be more evenly distributed than the property of individual men and women in the previous generation. To the extent that this factor operates, there is a tendency for inequality in inheritances to diminish with successive generations.¹ But the custom of Primogeniture and unequal division among the family, the effects of fresh accumulations and other variable factors may, of course, more than counterbalance this tendency, and seem, in fact, to have done so in the past.

§ 3. The size of family is the next variable to consider. We have already touched on the effect of an increasing population on the distribution of inheritances, under the law of *legitim*. It was shown that, if there is no fresh accumulation as population increases, then the amount of property per head must, of course, diminish, but the relative distribution of the total is not, for that reason, altered.² But since, in fact, we know that saving does take place to meet the needs of an increasing population, that conclusion itself does not lead us very far. It is probable, on theoretical grounds, and it appears to be true historically, that the more rapid the increase in population, the greater the saving per head and the more rapid the increase in the total capital. (Whether the former is the cause or the result of the latter need not concern us here.) Consequently, when families are large and population is increasing rapidly, the proportion of inherited to total wealth will usually be smaller, and the *direct* influence of inheritance less than when families are small and population is nearly or entirely stationary. Hence one effect of the great decline in the birth-rate,

¹ One might here draw a close parallel between biological and economic inheritance. There is a tendency in families where there has been much intermarriage between the classes for successive descendants to revert more and more to the normal, as regards the possession of property. The growth of democratic manners and popular education is naturally likely to increase the force of that tendency.

² See § 1 of this chapter.

MARRIAGE AND THE SIZE OF FAMILIES

which the present century has witnessed all over Europe, would have been—had other things, such as the value of currencies, remained stable—to increase the proportion and the importance of inherited wealth.

But, even when both population and capital are increasing rapidly, the total influence of inheritance on distribution is not so greatly weakened by the sub-division of past wealth among increasing numbers of descendants, for it still retains a considerable indirect influence on the distribution of the fresh accumulations.

§ 4. The relative size of rich and poor men's families has an obvious bearing on the distribution of inheritances. If great fortunes produced large families, and small families accompanied small fortunes, it is evident that the inheritances of the children would be more evenly distributed than the property of their parents. In the extreme case, if the size of the family were exactly in proportion to the property of the parents, and all estates were divided on the *legitim* principle, the inheritances of all the children of the different families would be precisely equal. It is, however, nearer the truth to suppose that men's families are in inverse proportion to their means. Poor men, on the whole, have larger families than rich men. The average upper middle-class family is only *two-thirds* of the size of the average working-class family.¹

¹ See the *Registrar-General's Report on Occupational Fertility in the Supplement to the Census of 1911*, and also the *Decennial Supplement on Occupational Mortality and Fertility* in connection with the *Census of 1921*, also T. H. Stevenson, "The Fertility of Various Social Classes," etc., *Stat. J.*, May, 1923.

In Social Class I, which covers the professional and middle classes in 1911 (but is more closely confined to the "comfortable classes" in 1921 Census), the number of surviving children per hundred married couples was 21, as against a general average for all classes of 280. The difference in the case of those engaged in the more strictly "upper middle-class" occupations was even greater. The families of professional men, of army officers, and of those living on private means, were only between 60% and 70% of the average in size. In round numbers, there were two children per upper middle-class couple, and three in the average working-class family. These averages apply to all married couples of what-

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Hence, in the absence of modifications introduced by marriage, fresh accumulations, and taxation, the distribution of property would be likely to become more and more unequal. Of course, there is no necessary reason why poor men's families should continue to be larger than rich men's, but so long as they are, this fact must, in some degree, aggravate the inequality of inheritances and of wealth in general.

CHAPTER IV (*continued*)

IV

ECONOMIC CONDITIONS

§ 1. APART from variations in laws and customs, the influence of inheritance on the distribution of wealth depends ever age. The number of children likely to survive their parents who die within the present generation can be gauged better by the figures for children living in the case of couples married, say, thirty or forty years ago. The 1911 figures are as follows:

CHILDREN SURVIVING PER 100 FAMILIES IN 1911 ("CRUDE" RATES)

Date of Marriage.	Social Class I.	All Classes.
1891-96	247	328
1886-91	286	378
1881-86	325	416

The size of family in Social Class I is thus 78% of the general average for marriages in 1881-6, 76% for marriages in 1886-91, 75% for marriages in 1891-6.

Well-to-do parents dying to-day might thus be expected to leave on the average about three children to share their property, as against about four children in the case of working-class parents.

The figures for fertility in the various social classes are neither so complete nor so reliable in the case of the 1921-3 returns (see Dec.: Supplement, Report, p. xcix). But they indicate at least as great a difference between the classes. The birth-rate, in the case of families where the father was under fifty-five years of age, was 70% of the general average in Social Class I, as against 73% in 1911. Note, however, that Social Class I was more closely confined to the "comfortable class" in the treatment of the 1921 figures than in the case of the 1911 figures.

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upon the economic conditions of the period or the country in question.

In "new" countries, which have been settled at a comparatively recent date, inherited wealth is likely to form a smaller proportion of the total property, and the influence of inheritance is consequently likely to be less than in the case of old-established countries. For the bulk of property owned by the inhabitants, exclusive of what may be mortgaged to capitalists in the Old World, must have been freshly acquired by the enterprise and industry of relatively few generations of settlers. At the same time, in the history of most colonies, the settlers have not abandoned—at any rate for long—the inequalities of the Old World when they entered the New. Even at the outset, unequal inheritances acquired in the parent country have played their part in shaping the distribution of land and capital in the new country. But the chief reason why inherited wealth has less influence on distribution in newly settled countries, and why wealth there is more evenly distributed, is that, although there are usually considerable inequalities in the division of the original capital possessed by the settlers, yet, owing to the more plentiful supply of cheap or free land, there are more equal and more abundant opportunities of acquiring fresh wealth both by industry and speculation. In the first settlement of a country, native ability, industry, and luck play a more important—though by no means the sole—part in determining the distribution of wealth. But later on, as large inheritances accumulate, and as the entire territory becomes private property, so that the opportunities for acquiring fresh wealth become less abundant and less open to all comers, contrasts in distribution become greater and more permanent, assuming the hereditary character familiar to inhabitants of the Old World. Cannan quotes an American writer, H. R. Seager, as saying in 1904: "So long as a fair degree of economic opportunity is preserved, the influences which make for the disintegration of large accumulations of wealth are likely to predominate, and the very rich of each generation are likely to be those who

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have acquired the greater part of their fortunes in their own lifetimes. This has been the case in the United States up to the present time. . . ." "But in his (Seager's) 1913 edition," says Cannan, "he decided to omit this passage. As the United States ceases to be a 'new' country, more and more property will be inherited in proportion to that which is acquired in the lifetime of a generation, and there will consequently be more scope for inequality of inheritance . . . America may be free from inequalities arising from grants of land made by William the Conqueror, but it is just as easy to be the lucky inheritor of a farm which becomes part of the site of a great city there as in England. The Astor inheritance in America has the same source as the Grosvenor inheritance in England, and the Vanderbilt and the Morgan millions are no more likely to disintegrate than those of the Rothschilds."¹

It is, however, significant that, in America, notwithstanding its numerous millionaires, the relative inequality in the distribution of wealth appears still to be appreciably less than in Britain, or than in France or Germany before the War. And the difference in the case of Australia, a still "newer" country, is very noticeable.²

§ 2. Stability in prices, and in economic and social conditions generally, favours the influence of inheritance. Changes in the value of money have, historically, been the chief means by which hereditary barriers have been broken down and the social classes recast—for example in the sixteenth century and during the last ten years. It is now well known that the depreciation of money enables the producer to rob the rentier and the debtor to cheat the creditor. It thus increases the rewards of risk and enterprise at the expense of those who attempt to preserve their accumulations for all time by placing them in "safe" investments at a fixed rate of interest, so that their heirs can draw the income without further trouble or the exercise of business intelligence.

"Those secular changes," writes J. M. Keynes, "which in

¹ Cannan, *Wealth*, pp. 183-4.

² See note at end of chapter.

ECONOMIC CONDITIONS

the past have depreciated money, assisted the new men and emancipated them from the dead hand; they benefited new wealth at the expense of old, and armed enterprise against accumulation. The tendency of money to depreciate has been in past times a weighty counterpoise against the cumulative results of compound interest and the inheritance of fortunes. . . . By this means each generation can disinherit in part its predecessors' heirs; and the project of founding a perpetual fortune must be disappointed in this way, unless the community, with conscious deliberation, provides against it in some other way, more equitable and more expedient."¹

The picture is vivid, but the argument is surely not entirely logical. Whether or not the depreciation of money enables a generation to disinherit in part its predecessors' heirs depends largely on the character of the heirs. It can scarcely do so if the heirs have as much business acumen and enterprise as their predecessors. Inherited fortunes are not necessarily left in old and depreciating forms of property, any more than new savings are necessarily put into new and appreciating forms of property. Nor, in the majority of cases, are inheritances settled immutably in any particular forms of investment. The heirs of large fortunes, that are not the subject of a trust or entail, are as much at liberty to select the most profitable investments as those who are making new accumulations. As regards settled estates, which are to-day less than one-fifth of the whole, the chief form of property which predecessors have endeavoured to "tie-up" is land²; and land

¹ *A Tract on Monetary Reform*, p. 10.

² After the Budget of 1914, all settled property left by those dying after August, 1914, of over £100 in value (except a settlement relating to husband and wife which has paid duty on the death of one of the spouses) is subject to Estate Duty *each time* it passes at death. The net capital value of settled property passing in Great Britain in 1925-6 was £80.28 millions out of a total capital value of all estates passing of £456.39 millions, or 17.6%. *Settled Realty* amounted to £26.53 millions (or £30.44 millions including leaseholds, and real estate directed by settlement to be sold) out of £82.26 millions total realty—the proportion being 32.3% (or 35.4% if leaseholds, etc., are included as realty).

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has been historically the one really safe investment, which does not depreciate as money depreciates. To-day, for example, an unprecedented depreciation of the currencies of Europe has left the peasant proprietor in control of the townsman. And, in those countries where the fortunes of great landowners have been dispersed, it has been done by the conscious deliberation of the community or by some forcible human act, not by the unconscious erosion of a depreciating currency.

Changes in values do not always operate against the inheritor and in favour of the newcomer. In so far as the changes are not foreseen, they benefit and bankrupt both indifferently. Nevertheless, they do involve a partial redistribution of wealth; a redistribution which may leave the inequality of property as great as before, but is no longer so closely in accordance with that of individual inheritances. In other words, rapid changes in the value of money make both chance and intelligent risk-bearing more important factors in distribution, so that both inheritance and saving proper become relatively less important. In so far as it is possible to forecast changes in values, we have already seen that, other things being equal, the inheritor of a large estate is in a better position than the man of small means to exploit the instability of prices.¹ But it is probably often true that the heirs of large fortunes, being enabled to remove themselves from active business, lack of enterprise, the knowledge, or the intensity of purpose that enables the newcomer to derive advantage from shifting values, and thus acquiesce tamely in their own impoverishment.

NOTE TO PAGE 118.

DISTRIBUTION OF WEALTH IN "OLD" AND "NEW" COUNTRIES

The following table illustrates the point. (There are no figures that I know of relating to the distribution of *property* in the U.S.A., so the figures for U.S.A. *incomes* are compared with those of Prussia and Australia, as an indication of the probable difference

¹ See page 86.

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in the matter of property also.) For reasons given below, attention should only be paid to differences that are well marked.

DISTRIBUTION OF PROPERTY

Cumulative
Percentages
of Total
Number.

Cumulative Percentages of Aggregate Value.

1 Richest fraction of the People. % of Total Number.	2 <i>England,</i> 1911-13.	3 <i>England,</i> 1923-5.	4 <i>Prussia,</i> 1908.	5 <i>France,</i> 1909-13.	6 <i>Australia,</i> 1914-15.
0-1	34%	32%	25%	26%	15½%
1-0	68%	60%	50%	57%	38½%
5-0	87%	81%	75%	75%	65%
10-0	91%	88%	84%	83%	79%

DISTRIBUTION OF INCOMES (before Direct Taxation)

Cumulative
Percentages
of Total
Number.

Cumulative Percentages of Aggregate Value.

Richest fraction of the People. % of Total Number.	7 <i>Prussia,</i> 1913.	8 <i>U.S.A.,</i> 1918.	9 <i>Australia,</i> 1920-1.	10 <i>U.K.,</i> 1910.	11 <i>U.K.,</i> 1919-20.
0-1	8%	5.9%	5.7%	10%	8.9%
1-0	18%	13.8%	13½%	29%	20%
5-0	31%	25.7%	25.7%	43%	32%
10-0	40%	34.4%	33%	52%	39%
20-0	52%	47%	45%	—	50%

The following notes on the sources and comparability of the different sets of figures are important.

COLUMN 1

The total number of "persons" in the population, to which the numbers of property-owners in the various classes are related as percentages in this column, consists of all adult men and women over twenty-five years of age in the case of England and France where the taxable estates, but not the taxable incomes of married men and women are counted separately; and of all "bread-win-

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ners" or occupied persons in the case of Prussia and Australia, the latter total being some 15 per cent. less than the total number of adults (male and female) over twenty-five years. Thus the percentages of the total number of "persons" given in column 1 do not apply precisely to the same thing in the different countries. But the discrepancies likely to be caused on that account are probably not great.

In the case of *Income* Distribution, in all the four countries chosen, the total number of incomes seems to be approximately equivalent to the total number of persons occupied in "getting a living" (exclusive of married women not occupied in industry). I could wish writers on Income Statistics would make it quite clear when they do and when they do not count married women's incomes as separate from their husbands', and would consider the discrepancy introduced (as, for example, in the British statistics), when married women's incomes in the taxable classes are lumped together with those of their husbands, and their earnings treated as *separate* in the non-taxable classes. (See also remarks in Appendix to Chapter I.)

COLUMNS 2 AND 3. ENGLAND—PROPERTY, AND COLUMNS 10 AND 11 UNITED KINGDOM—INCOMES

For sources of these figures, see Appendix to Chapter I, p. 64, which points out *inter alia* that the figures in columns 10 and 11 are *not* comparable *inter se*.

COLUMN 7. PRUSSIA—INCOMES

The source is Helfferich: *Deutschlands Volkwohlstand*, 1888–1913 (1915 Edition), which gives figures based on the Prussian Income Tax returns, including an estimate of the number of family dependants represented in the various classes. In view of the fact that income evading taxation is put at not less than 10% of the taxable total, inequality of distribution is probably understated.

COLUMN 4. PRUSSIA—PROPERTY

The source is Prussian Property Tax returns for 1908, quoted by King—*Wealth and Income of the U.S.A.*—who gives his own estimate of the aggregate value of the small estates (under £300) not liable to tax. In making my comparison I adopt the latter, but compare the *numbers* in each class with the total "occupied" population (about 15 millions) which King apparently does not. These figures are still more unsatisfactory than those for incomes; Helfferich puts evasion of Property Tax at 20% of the taxable total (in 1912).

COLUMN 5. FRANCE—PROPERTY

The only figures available are those of estates passing at death, previously discussed in note to Section 1, Chapter IV. In view of

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the difference in age-distribution between living and dying property-owners, some unknown correction has to be made in applying the succession percentages to the living. In the absence of any better method, I have compared the figures of the distribution of estates among the living and among the dying in England, 1912 and 1924; in this case, the percentages of the total property left by sections of the dying are about 2% *less* than in the case of the living for the richest 0.1% and 1% of the people, and 2% to 3% *more* for the richest 5% and 10% of the people. I have therefore made the correction to the French Succession figures suggested by this comparison and, though it is quite clear that the nature of the correction which should be made is different in the two cases, nevertheless the error in the proportions is not likely to be great on this account. But, on account of extensive gifts and evasion, the figures are probably little more reliable than the Prussian, which they so closely resemble.

COLUMN 6. AUSTRALIA—PROPERTY

The source is Knibbs (*Commonwealth Statistician*), who gets his figures from the War Census 1915 returns. These figures are probably about on a par with those for Britain as regards reliability, though the War Census method was likely to cause some understatement as regards the actual totals.

COLUMN 9. AUSTRALIA—INCOMES

Knibbs' figures for Income distribution in 1914-15 are not very suitable for our purpose, owing to the inclusion of about 14% of the population as having no income or a deficit; this section was composed largely of farmers who had made a loss in the year in question. The figures given for 1920-1 by J. T. Sutcliffe (*The National Dividend*, published Melbourne, 1926) are used here.

COLUMN 8. UNITED STATES—INCOMES

The source is the National Bureau of Economic Research (*Income in the U.S.A.*, 1909-19, Vol. I). Very full tables of distribution have been worked out by this body, and the totals checked by independent methods. Unfortunately they do not deal with the distribution of property.

In dealing with the figures given in the above table, it should be remembered that, generally speaking, the distribution statistics for Britain (with the exception of those for Incomes in 1919), Australia, and the U.S.A. are much more accurate and reliable than those for France and Prussia. The difference in the distribution of property and incomes as between Britain and Australia is certainly both real and important, as is also that between Britain and the U.S.A.; and it may be remarked that in the U.S.A. and in Australia, capital and income per head of the population are greater than in Britain.

CHAPTER V

WHAT PROPORTION OF BRITISH PROPERTY HAS BEEN INHERITED?

§ 1. In the last chapter we discussed the various circumstances, legal, social, and economic, which affect the influence of inheritance on the distribution of wealth. In this and the next chapter, we are concerned with how to test the extent of that influence in Britain in the present century. For this purpose, there are two main questions which seem to require an answer: (1) What proportion of the aggregate of individual property has been acquired by inheritance, and what by fresh accumulation? (2) Do the larger properties belong, on the whole, to those who received the larger inheritances?

§ 2. The first question is considered in the present chapter. It raises some fundamental questions of definition which cannot be passed over. If, for example, we consider the property of the members of a community, at any given time, as consisting of the definite collection of particular objects possessed by them, in existence at the time in question, then, by definition, only those objects which were actually created in previous generations can constitute their inherited property. The latter would therefore be confined to the land itself, and to the more durable buildings and plant, *minus*, of course, any new brickwork and paint, and new parts supplied by members of the living generation.

But if we adopt this definition of the nation's inherited capital, then we must revise our conception of the "national income," so as to include one of the costs of producing it, namely, the expenditure on repairs and renewals necessary to maintain in serviceable condition the previously existing stock of material equipment; and we must consider this expense as forming part of the "National Savings."¹ In order to be con-

¹ Cf. Bowley, "Definition of the National Income," *Econ. Journal*, March, 1922.

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sistent, we should then have to consider the income on £10,000 worth of property (when the rate of interest was 5 per cent.), not as £500 a year, but as some much larger amount which would include the cost of repairs and depreciation. One may admit that, in many cases, the ordinary citizen would include in his conception of his "savings" any sums put by to meet the depreciation of personal domestic possessions, such as furniture or private motor-cars. But this is largely because the income of enjoyment derived from such possessions does not form part of his money income; if he hired out his motor-car, for example, he would certainly reckon an allowance for depreciation as one of the costs which must be met by the hirer. Nevertheless, when any household goods which he inherited wear out and have to be replaced, he would probably consider that the new goods bought in their stead were acquired by saving and not by inheritance, because the replacement was the result of conscious thrift on his part. But, in a modern industrial community, the great bulk of private property is held in the form of investments in corporate concerns, which would go bankrupt if they did not reckon depreciation as part of their costs and deduct an allowance for it before distributing their profits. As regards the greater part of the nation's capital goods, provision for their maintenance and repair is not the result of conscious thrift on the part of the individual owners of property rights in them.¹ For this reason, the above definition of the nation's inherited property—that it consists only of those particular objects which were created in past generations—is thoroughly misleading in its implications, and irrelevant for our purpose. It bears no clear relation to the aggregate of individual inheritances. By no reasonable use of language, for

¹ In 1925-6, 67.7% of the gross value of estates subject to Death Duties in Great Britain, was accounted for by Government and Municipal securities, stocks and shares, bank deposits, mortgages, ground rents. If one excludes War Loans as not representing concrete capital, the proportion is 62½%. House property (including business premises), household goods, and stock-in-trade (of businesses *other than* Joint Stock Companies) accounted for little more than one-fifth (20.81%). (See 69th Rept. I.R., Table 18.)

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example, can it be said that the inheritance of shares in a firm ceases to be inherited property, when the firm's original equipment has been worn out and replaced by new equipment. The shares do not represent the possession of any particular concrete goods, but a right to a portion of the firm's profits, and those profits are computed after making an allowance for depreciation.

If we want to divide the "National Capital"—in the sense of the useful material objects owned individually and collectively by the nation's citizens¹—into two parts, namely that acquired by inheritance, and that due to fresh accumulation, then it seems proper to adopt the following definitions:

(1) That the part due to fresh accumulation or "Saving" consists of the *net* additions made by the living to their stock of Capital goods.

(2) That such net additions are exclusive of repairs and replacement of goods in the previous stock which have become worn out or *obsolete*²; as these repairs and replacements are a cost of production and not "saving" proper; and

(3) That the previous stock maintained and replenished in this way (i.e. the remainder) constitutes the nation's Inherited Capital.

A rough estimate, on these lines, of the inherited portion of the National Capital before the War is attempted below. But

¹ The nation's capital wealth "may mean *either* the value of the objects found within its boundaries *or* the wealth of the inhabitants, including their foreign possessions and excluding wealth within the country held by people abroad." It is in the latter sense that the term is used here. (Stamp, *Wealth and Taxable Capacity*, p. 7.)

² There is no doubt that, according to the accountants, provision against the "normal risks of obsolescence" ought to be reckoned as one of the costs of production. "Obsolescence," however, is obviously a relative term, which can be interpreted in a very wide sense, if we choose. The adequacy or inadequacy of Income Tax allowances for depreciation (including obsolescence) is discussed in *British Incomes and Property*, pp. 179, 194, etc. In so far as they are inadequate, Companies' Savings—in the strict sense—will be somewhat less than their assessed Undistributed Profits. (See also note 3 to p. 48 above.)

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it is important to realise beforehand what such an estimate does and does not signify.

§ 3. The proportion which the Nation's Inherited property (as above defined) bears to its total capital is not the same thing as the average proportion derived from inheritance in the aggregate of individual cases. In the first place, a considerable part of the property of one generation may pass to the next by gift during life rather than by bequest and inheritance. For the purpose of this chapter, however, we may treat gifts and inheritances as coming in the same general category, since our present object is to find how much of our property is due to the accumulations of the living and how much to the accumulations of the dead. But, in the second place, the net additions to the community's capital made by the living are a different and a smaller total than the aggregate of individual savings. For the *net* savings of the community are made up of the aggregate balances of income over consumption, *minus* the aggregate balances of consumption over income; but the latter do not figure as a deduction in computing the aggregate of individual savings. A certain part of individuals' accumulations does not represent any addition to the capital stock of the community, but is merely absorbed in financing the consumption of Governments and individuals who live beyond their incomes. Investments in War Loan are an obvious example; and in the same category are loans to individuals used for current consumption. To the extent that some individuals indulge in decumulation of their property, they must do so by drawing on the fresh accumulation of others. For the world as a whole cannot consume more than its own income.¹

The importance of this distinction between aggregate and net saving in its bearing on the subject of this chapter can be illustrated by an example. Let us suppose that the community is divided into three classes, each of which has inherited a total capital of £3,000 millions. The first class saves £200 millions a year, the second class lives just up to its income and saves

¹ Except in so far as it does not provide for the maintenance of its existing equipment, and this reduces its future income.

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nothing, and the third class consumes more than its income to the extent of £100 millions a year. At the end of thirty years, assuming capital values to be stable, those in the first class would own £9,000 millions, those in the second class would still own £3,000 millions, and those in the third class would own nothing. The total capital of the community would then be £12,000 millions, the net additions to the original inherited capital being £3,000 millions or *one-quarter* of the former sum, and the ratio of the inherited to the total capital would be *three-quarters*. But the aggregate savings of the community made exclusively by the first class have amounted to £6,000 millions or *two-thirds* of the property of that class, while the whole of the property of the second class was inherited, and the third class has entirely squandered its inheritance. *The average proportion of individual properties acquired by inheritance* would thus be, not three-quarters, but only *one-half*. It is clearly possible, therefore, that, even if no increase in the community's capital took place during the lifetime of one generation, yet the property of many individual members might have been acquired largely by their own savings, which had been used in purchasing the inheritances lost by the original inheritors.

Thus, in assessing the direct influence of inheritance on the distribution of property (apart from its indirect influence on incomes and saving), what we really require to know is not so much the relative proportions of the national capital representing respectively the additions made by the living, and property received from the dead, as the ratio of the aggregate of individual savings to the aggregate of individual property. It is the latter ratio also which would need to be considered by the administrator, if and when it is decided to attempt to differentiate in taxation between "inherited" and "saved" wealth. But, in this case, it must be remembered that the aggregate of individual savings *plus* the aggregate of individual inheritances received does not equal the aggregate of individual property, but would always make up a somewhat larger total.

§ 4. In practice, any attempt to estimate directly the aggregate savings of a generation is likely to be unconvincing. There

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are, indeed, estimates of the "National Savings" both for pre-war and post-war years, which are frequently quoted in convenient contexts. But the two most careful estimates—namely, that obtained for 1907 from Census of Production Data and that given by Mr. Coates for 1924—appear to relate neither to the aggregate savings of individuals nor exclusively to net additions to the nation's capital, in the sense we have defined them, but to some quantity in between the two.¹ Again the estimates

¹ According to the estimate in the Census of Production Report for the year 1907, in that year £170 to £190 millions represented additions to capital goods within the United Kingdom (including new houses, etc., as well as Government expenditure on capital works estimated at £12 millions). The increase in personal domestic property (such as furniture, motor-cars, etc.) seems to have been put at £50 millions or so, though there were apparently very little data for this estimate. Foreign investments, including income accrued abroad, are put at £100 millions. The resulting total is £320–40, or say £330 millions, or about 17% of the total estimated income in the year in question. This £330 millions was exclusive of sums for capital maintenance and repair, but apparently included a certain unknown amount of new investment which went to replace obsolete capital, and was thus, according to our definition, not strictly "saving," but part of the cost of depreciation. But it does not include loans for consumption purposes, which ought to figure in the aggregate of individual savings. On the other hand, some part of these savings will be wasted in unprofitable investments that add neither to the investor's property nor to the community's capital. Another part will appreciate in value, but in so far as this appreciation is due to the piling up of company reserves, it is already counted in as "corporate savings."

In order, therefore, to arrive at an estimate of the aggregate of private accumulations in 1907, we should have to *add* to the Census figure of Savings (i) an estimate of loans for consumption purposes, and *deduct* (ii) any replacements of previous capital stock included in the Census figure, as well as (iii) an allowance for wasted new investments, which are in effect merely unwise spending. (See Stamp, *British Incomes*, etc., pp. 181–203, where estimates of wasted investments, etc., are quoted and criticised. I agree with the author that the loss of capital values in respect of old investments cannot be fairly deducted from the total of fresh accumulations—except in so far as they are due to inadequate allowance for the depreciation of material equipment. On the other hand, in that case, an increase in the capital value of old investments, when it is not due to

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relate to isolated years, and one is not entitled to assume that the community saves the same proportion of its income from one year to another, even in pre-war times. Probably, for example, it saves a larger proportion when the income is more plentiful.

The most satisfactory method of attempting to compute the total *net* savings of a generation (as distinct from the aggregate of private accumulations) seems to be to compare valuations of the National Capital at the *beginning and end of a period representing the duration of a generation*. On the assumption—which is examined later—that we can allow for changes in capital values so as to obtain a stable measure of changes in amount, the difference between the totals at the beginning and end of the period represents the total net savings (as defined corporate saving by the concerns in question, ought not to figure as fresh accumulation. In any case, capital losses in respect of fresh investments ought to be deducted from the aggregate of savings over a period.)

(i), (ii), and (iii) above are unknown quantities. But if we care to assume that (i) cancels (ii) and (iii), and further that about the same proportion of the national income was saved each year during the generation which preceded the War—then the aggregate savings accumulated by individuals during that generation would be about £7,000 to £8,000 millions. (I take the duration of the generation as from 1885 to 1912, and an average national income during the period of £1,700 to £1,760 millions.) This aggregate is equal to between 50% and 60% of the total private property of the people of the United Kingdom at the end of that generation. On the same hypothesis, the average proportion of private estates in 1914 acquired by inheritance and gift from their owners' predecessors would be round about 40% to 50%. Obviously no particular importance can be attached to such an estimate, but it may be useful for comparison with the estimate of the proportion of the National Capital derived from past generations given on pages 137–8 below. It is interesting to notice that settled property, which must in the main be received by way of gift or inheritance, formed about 18% of the value of estates over £100 in 1925–6 (see 69th Rept. of I.R., p. 33), and since most settled personalty is in fixed-interest securities which depreciated relatively to other property in the War inflation period, the proportion was probably higher before the War. (N.B.—The Estate Duty figures before the War do *not* include all settled property.)

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above), and the earlier total the inherited capital of the generation in question.

The first problem is to determine the "length of a generation." The phrase is a vague one; but clearly the period required here is the average interval between the time at which people inherit and the time of their death, taking the average of units of property rather than the average of persons. In other words, we have to determine the "devolution" or "succession interval." That period can be estimated in various ways, and, for the pre-war generation of property owners, may be put at about twenty-eight years.¹

¹ The calculation and significance of the Estate Duty "multiplier" is discussed in the Appendix to Chapter 1 (see p. 73). If there were no gifts *inter vivos*, and all property passed by inheritance at death, the "multiplier" would represent the number of years during which a unit of property remains in the hands of the living. Owing to the practice of gifts *inter vivos* the "multiplier" is higher than it would otherwise be—exactly how much higher it is impossible to say with certainty, without knowing the total amount of gifts and the ages of the persons who give and receive them. The "multiplier" was calculated at about 30 for 1911–13, and somewhat less for 1905–6 (see Mallet and Strutt, *S.J.*, July, 1915). It may be noted that when the death-rate is declining—as it was in the period 1870–1914—the gradually increasing length of life tends to increase the period of survivorship of children over parents. Hence the "succession interval" for the generation before the War may be put at not more than thirty years, and—in view of the effects of gifts *inter vivos* on the "multiplier"—probably not more than 28 years.

In the case of the sample of eighty estates of over £200,000, left by men dying in 1924–5, I found that the average interval between the years in which they received their chief inheritance, and their death, was 33 years. But the average, when *weighted* roughly according to the amount of property inherited, sank to 25 years. The *median* interval was 29½ years.

In the case of another sample of ninety estates of between £10,000 (net personalty) and £200,000, the average interval (unweighted) was 32½ years, the *weighted average* was 32 years, and the *median* was 30 years. (These samples are dealt with in the next chapter.) In the case of these samples, the interval taken was, in the majority of cases, that between the father's death and the son's death. If *collateral* inheritances had been taken into account the average interval would certainly have been shortened considerably.

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Hence, we may choose the period from 1885 to 1912 as representing the length of a generation. It is, in fact, a most convenient period, both because we have authoritative estimates of the National Capital at the beginning and end of it, and because the price-level and the rate of interest were not markedly different in 1885 and 1912.

The next problem to be faced is whether it is indeed possible to estimate the change in the amount of the capital during that period, from a comparison of valuations at the beginning and end of the period. In a recent pamphlet dealing with changes in the National Income from 1880 to 1913, Professor Bowley writes: "It is not possible to measure the *amount* of capital apart from its *value*, and its value can only be estimated from its earning power; consequently we cannot estimate the change in the quantity of capital in the thirty-three years (1880-1913)."

That conclusion I cannot accept as the last word on the subject, though his warning is certainly useful as a corrective to unquestioning use of estimates of the National Capital at different periods, and as a stimulus to careful thought. A full discussion of the subject is beyond our scope here, but the following observations will not be out of place.

The monetary value of a given collection of capital goods is certainly computed by estimating the money value of the income derived or expected from them and multiplying this by the reciprocal of the current rate of interest. Thus the value of a given capital depends on (a) the amount of income derived from it, (b) the money value of the goods and services of which that income consists, and (c) the rate of interest.

If, then, the valuation of the national capital is found to increase between two dates by, say, £5,000 millions, that increase may be largely or entirely due, not to the creation of fresh capital, but to an increase in (a) or (b), or to a decline in (c); or conversely the increase in *amount* may be much greater than appears, owing to a decrease in (a) or (b) or to an increase in (c). The problem is, then, how to ascertain what variations have taken place in our three variables, and how to correct the valuations in order to allow for them.

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We can ascertain changes in two of the variables, namely, changes in the value of money, and in the rate of interest; and, if there were no question of change in the amount of income derived from a given collection of property we could ascertain what addition had been made to it over a given period by *reducing* the valuation of the total at the latter end in proportion to an *increase* in the price level, and *increasing* it in proportion to any increase in the rate of interest, and *vice versa*.

Changes in the "earning capacity" of capital goods as a whole, which may conceivably occur apart from changes in the value of money, offer a more difficult problem. An increase or decrease in the amount of income derived from a unit of *fresh* capital is registered by a rise or fall in the rate of interest. But, it may be argued that the earning power of old accumulations has no necessary connection with the earning power of new accumulations. For changes in conditions of demand and methods of production might make our present capital goods much less or much more valuable in course of time, quite independently of changes in the general price level or in the rate of interest; so that, apart from a complete inventory of all the items at the two different rates, there is no method of computing the extent of the additions to the capital stock. The argument has force in abnormal times when economic changes are rapid and far-reaching, such as the period of the Great War. But in more normal times, when changes in technique and conditions of demand are more gradual, it is possible for industries and individual owners of property to adapt their equipment and forms of investment to those changes without loss; and the depreciation funds, which are one of the recognised costs of organised business and which should not figure as "saving," make allowance for what may be called the normal risks of obsolescence.¹

An examination of the course of broad classes of investment values shows that by far the most important factors, which disturb the value of capital goods as a whole, are changes in the

¹ See p. 126 above, and note 2 on that page.

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value of money and in the rate of interest.¹ Giffen seems to have thought that only changes in the price level should be

¹ A comparison of the course of commodity prices, the reciprocal of the rate of interest, and the prices of different classes of investments yields interesting results. The *British and Foreign Colonial Corporation* have published for some years a series of investment index figures distinguishing "Gilt-edged Stock," "Fixed-interest Investments" (e.g. foreign, colonial, and municipal loans and debentures and the securer preference shares of industrial and commercial undertakings), "Varying Income Investment" (e.g. shares of the larger industrial and financial companies, banks, insurance companies, etc.), "Semi-speculative" (comprising "the shares of perhaps the largest number of companies whose securities are dealt with on the Stock Exchange), and "Speculative" (e.g. ordinary and deferred shares in the more speculative concerns). The *Bankers' Magazine* Investment Index number is perhaps more authoritative, but it only distinguishes two classes—Varying and Fixed Interest. An examination of the B.F.C. index numbers of investments and those for prices and the rate of interest during 1920-4 indicates that, in practice as in theory—the values of *Speculative Stocks* move roughly in correspondence with the course of commodity prices; as regards *semi-speculative* stocks, the correlation appears to be greatest with commodity prices \times the reciprocal of rate of interest; the value of the "*Varying Income Investments*" appears to vary rather more in accordance with the reciprocal of the rate of interest than with commodity prices; and the prices of "*Gilt-edged*" naturally follow the same course as the reciprocal of the rate of interest.

The theory given above in the text receives some confirmation from the following table—showing the correspondence between the prices of agricultural produce, the rental of agricultural, etc., lands assessed to Income Tax under Schedule A, and an independent estimate of rentals by Mr. R. J. Thompson. "Lands" is the only item in the "National Capital" which we know must have been fairly constant in *amount*. But it should be noted that the Income Tax category "Lands" (a) includes gardens exceeding one acre, and farm-houses and buildings, (b) excludes vacant building land and urban land, that (c) the valuation is gross rent payable under agreement or lease before deducting any temporary abatement, and (d) a new valuation is only made every five years (see Stamp, *British Incomes*, etc., pp. 340-2; R. J. Thompson, *Stat. Journal*, 1907). Consequently "Lands" so defined can change in *amount* as well as value, according as more farm buildings are set up or old ones allowed to decay, or with the increase or decrease of other im-

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corrected for, on the grounds, perhaps, that the rate of interest registered the rate of yield to all capital and not merely the yield on fresh capital. But if one attempts to analyse the effects

provements, or, for example, when agricultural land becomes building land. There was almost certainly some decline in amount as a result of the slump in agriculture during the eighties and nineties.

Year of New Assessment.	(1) Lands, Schedule A.* Assessment (England & Wales), % of 1900.	(2) Rental of 400,000 acres, % of 1900 (R. J. Thompson).	(3) † Index No. of Agricultural Prices (Triennial average) 1900=100.	Rentals in terms of produce.	
				Col. 1 ÷ col. 3.	Col. 2 ÷ col. 3.
1876-7	139	148	144	97½	103
1882-3	130	134	135	97½	100
1888-9	114	116	107	107	108
1893-4	108	109	108	100	101
1898-9	100	101	98	102	103½
1903-4	99	—	102	97	—
1910-11	99	—	109	91	—

* Refers to "Lands"—England and Wales—excluding Metropolitan.

† Taken from Table VII in Min. Agriculture's Report on Stabilisation of Agricultural Prices (1925).

The correspondence between prices and rentals is seen to be remarkably close, and in spite of the far-reaching nature of the economic changes affecting agricultural land values in this period, the latter if corrected for changes in prices show a fairly stable figure for income in terms of agricultural commodities.

Giffen's estimate for the capital value of Lands was £1,691 millions in 1885 (based on Income Tax figures, 1884-5) when the agricultural price index number for the average of the previous three years was about 134, and the general rate of interest was about 3·0%. Stamp's corresponding estimate for 1914 was £1,155 millions, with agricultural prices at 118 and the rate of interest at nearly 3·4%. If the 1914 figure is "corrected" so as to show the value at the same level of prices and with the same rate of interest as in 1885, it becomes about £1,480 millions. On this reckoning, the decline since 1885 was about 12½% (as against an apparent decline in *value* of nearly one-third). It is quite possible that the actual decline in the *quantity* of lands and farm buildings assessed

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of changes in commodity prices and in the rate of interest on different classes of property, it seems clear that for property values as a whole some correction should be made for both factors. The exact extent of the correction to be made in each case can hardly be predicted accurately. But the effect of the two corrections will be in opposite directions. For it is a commonly observed fact that the price level and the rate of interest rise and fall together, or, to put it more exactly, a high rate of interest goes with rising prices and a low rate with falling prices. Consequently the general course of property values is likely to be more stable than commodity prices.

Fortunately, as I remarked before, neither the price level nor the rate of interest differed greatly at the beginning and end of the period in question (1885 to 1912). The following table shows the Sauerbeck index numbers of wholesale prices and the yield on Consols (as representing the rate of interest to be obtained on safe investments) for the four years ending 1885 and 1912 respectively. Owing to the nature of the Income Tax figures, on which the valuations of the national capital at the two dates are based, it is proper to compare three- or four-year averages, rather than single-year figures.

It will be seen that the difference in the four years' averages is negligible as regards prices, and very slight as regards the rate of interest. Taking three-year averages, the rise in prices was about $5\frac{1}{2}$ per cent., and the rise in the rate of interest was very nearly in the same proportion; so that in their effect on property values as a whole, the one small change would be counterbalanced by the other. No correction will, therefore, be made on this account to the valuations of the total property which are to be compared.

to tax was as much as $12\frac{1}{2}\%$. But it is to be noted that the argument in the text does not go so far as to assume that changes in the quantity of *any particular kind* of property can be ascertained in this manner. It merely assumes that changes in the value of the nation's capital stock as a whole, unaccompanied by changes in general commodity prices and the rate of interest, represent changes in *quantity*.

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Year.	Wholesale Prices : Index No. (Sauerbeck).	Rate of Interest (Yield on Consols).
1882	84	3·0%
1883	82	3·0%
1884	76	3·0%
1885	72	3·0%
Average of 3 years	77	3·0%
Average of 4 years	78·5	3·0%
1909	74	3·0%
1910	78	3·1%
1911	80	3·2%
1912	85	3·3%
Average of 3 years	81	3·2%
Average of 4 years	79	3·15%

Sir Josiah Stamp estimated the "National Capital" in 1914 at £14,300 millions. The estimate related to the total property owned individually and collectively by the people of the United Kingdom, and was based largely on the Income Tax figures for rent, profits, and interest. The National Debt—then a comparatively small item (£650 to £700 millions)—was counted as an asset to the fund-holder but as a *deduction* from the value of property belonging to the Government. By the same general method, Giffen had estimated the National Capital at £10,000 millions in 1885. Certain items in Giffen's estimate have been criticised by the author of the 1914 estimate, and the net result of the latter's criticism appears to be to reduce it by some £800 millions. For our purposes, we may also deduct in each case the rather unsatisfactory estimates of public property created from the proceeds of taxation. The total private property may thus be put, in round figures, at £9,000 millions in 1885 and £14,000 millions in 1914.¹ The comparable figure for 1912

¹ See note at end of chapter.

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would be, say, £13,600 millions. These estimates are subject to a margin of error of rather more than 10 per cent. each way, but, since both estimates were calculated by the same methods, the error is likely to be in the same direction in each case.

On the basis of these figures, the increase in capital during the generation of 1885 to 1912 was £4,600 millions; and, on the supposition, for the reasons given above, that capital values as a whole had not altered greatly during that period, this sum represents the fresh accumulations of that generation. Thus the relative proportions of the total property in 1912 acquired by "saving" and inheritance are 34 *per cent.* and 66 *per cent.* respectively, or, in round figures, *one-third* and *two-thirds*.

§ 5. No great weight can, of course, be attached to exact percentages, in view of the rough nature of the figures and the considerations discussed above. But it is useful to compare these percentages with those obtained by another method. Professor Bowley has estimated that income from property, exclusive of profits derived partly from personal exertion, amounted to £420 millions in 1880 and £810 millions in 1913.¹ The price level was practically the same at the beginning and end of that period.² If we suppose the income from property to have increased during those thirty-four years at an approximately constant rate, the increase in a generation of twenty-eight years may be taken as represented by the increase from 100 to 173. If we accept the view, as before, that changes in property values as a whole are unlikely to take place without changes in the general level of commodity prices or in the rate of interest, this increase in property income may be taken as representing an actual increase in the amount of property due to fresh accumulation. The proportion of the property accumulated during the lifetime of the generation works out, in this case, at 42

¹ Bowley, *Change in Distribution of National Income 1880-1913*, pp. 23-5. The proportion of the National Income going to property is estimated to have been approximately constant during the period.

² Sauerbeck's index of wholesale prices averaged 83 for 1878-80 and 86 for 1911-13. The yield on Consols for the same years averaged about 3.1% and 3.3% respectively; for 1880 it was 3.0%, for 1913 3.4%.

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per cent. (73÷173), and the *inherited portion* at 58 *per cent.* The difference between these percentages and those obtained by the previous method is considerable. If we take the mean between the two results as giving the best general estimate under the circumstances, the proportion of the total property before the War derived from inheritance may be put at round about *three-fifths*. In that case, the *average proportion of individual estates* acquired by inheritance and gift would be something *less* than three-fifths, for, as we pointed out above, a certain proportion of the total inherited property passes into the hands of new savers owing to the decumulation of inheritors.

§ 6. If one examines the estimates of National Capital by Giffen and others at various points throughout the nineteenth century,¹ it seems clear that accumulation proceeded at a faster rate in the thirty years or so preceding the 1880's than in the succeeding period; and there are other indications that the increase of capital was most rapid in the middle part of the century. It is probable, therefore, that inherited accumulations formed a rather smaller proportion of the capital of our predecessors in the 1880's than of their successors in the last generation in the pre-war epoch. But one certainly cannot infer from this any general tendency for the proportion of inherited property to increase as generation succeeds generation. If one goes back two or three hundred years to a period when land was the chief form of property, when there was little security for other investments, when economic progress was less rapid, and when the "succession interval" was probably shorter owing to the higher death-rate and earlier marriages—it is almost certain that inherited property formed a larger proportion of the total than in 1900, and that the general economic influence of inheritance was greater. In the Middle Ages, of course, law and custom combined to make its influence paramount.

As regards the present generation in Britain, the real additions to the nation's capital goods made during the lifetime of living property owners cannot be nearly as great as in the preceding generation. For the bulk of individual savings from

¹ See note at end of chapter.

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1914-19 was absorbed in War expenditure and we are now saving probably a smaller proportion of our private incomes than before the War. Nevertheless, the *aggregate of individual accumulations* (including, of course, investments in War Loans) probably forms a greater proportion of the aggregate property than in 1914. For, the price revolution since that date has obviously benefited active business men at the expense of the less active or less business-like inheritors of fortunes invested in the old "safe" securities. Hence the proportion of the British citizen's property derived from inheritance is, on the average of all classes, almost certainly smaller than in the pre-war era. Higher Death Duty taxation has, of course, contributed to the same result.

In some other countries of Europe, where prices and economic conditions have been even less stable, the decline since 1914 in the proportion and importance of inherited wealth is probably much more marked.¹

NOTE ON ESTIMATES OF NATIONAL CAPITAL

Giffen's valuation for 1885 is given in his *Growth of Capital*, see pp. 11 and 43. For Stamp's estimate on the same lines for 1914 see *British Incomes*, etc., p. 404. A large part of Chapter XI of *British Incomes and Property* is taken up with a critical examination of the Giffen valuation; and a revised estimate for 1885 in accordance with the suggestions made there is given in the 3rd column of the following table, the second column of which shows Giffen's own figures, and the fourth column Stamp's estimate for 1914. The same chapter, referred to above, discusses the general utility and limitations of the Giffen method of capital valuation, and shows to what extent the method is necessarily arbitrary. But any general theoretical criticisms of the Giffen method apply equally to the 1885 and the 1914 estimates.

NOTES TO TABLE. (The page references are to Stamp's *British Incomes and Property*)

(a) "Lands." "The Schedule A assessments take little or no account of potential building values of land near towns, and valuable vacant sites are omitted altogether." Stamp holds that the Giffen method of valuation is only intended to take into account the existing utility of property, *not* the possibility of improved uses, but that Giffen's estimate ought nevertheless to be supplemented

¹ See Chapter IV, Sec. 4, p. 120 above.

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NOTE ON INCREASE OF THE NATIONAL "CAPITAL" 1885 TO 1914
(see p. 137).

(1) Items.	(2) 1885 (Giffen).	(3) 1885 (revised).	(4) 1914 (Stamp).
	£ mills.	£ mills.	£ mills.
Lands (Schedule A) (a)	1,691	1,710	1,155
Houses (Schedule A) and Build- ings	1,927	1,927	3,330
"Other Profits" (Sch. A) (b)	26	18	22
Farmers' Capital (Sch. B) (c)	522	(300 ?)	340
Railways in U.K.	932	932	1,143
Railways Abroad	76	76	655
Mines and Ironworks (d)	39	88	216
Gasworks	126	126	182
Waterworks, Canals, Quarries, Fishings, etc. (d)	164	168	278
Other profits and interest paid out of rates	155	155	276
Colonial and Foreign Securities (Schedule D) <i>Coupons</i> (Sched- ule D) (f)	197	197	1,004
"Businesses not otherwise de- tailed" (Other Public Coys., Trades, Professions (including estimate for evasion)) (e)	1,360	1,280	2,770
Income from Abroad escaping Tax (g)	500	(360 ?)	400
Capital of Non-Income Tax pay- ing classes not included else- where (chiefly Stock-in-trade, Tools, etc.) (h)	335	100	200
Moveable Property not yielding money income (furniture, etc.) (i)	960	(500 ?)	800
Schedule C. Government Securi- ties (Home, Colonial, Foreign) (j)			
National and Local Government Property—less Central and Local Government Loans in- cluded above	1,027	1,000 250	1,148 400 } 1,548
TOTAL	£10,037 mills.	(£9,187) mills.	£14,300 mills.
Total Private Property (excluding last item above)		£8,950 mills.	£13,900 mills.
say, in round numbers,		£9,000 mills.	£14,000 mills.

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by the capital value of vacant building lands, on the basis of their immediate building value (p. 384). Stamp includes in his 1914 estimate £30 millions for vacant building lands. A comparable figure would be, say, £20 millions in 1885.

(b) "*Other Profits—Schedule A*" (Manors, fines, tithes, sporting rights, etc.). (Giffen took thirty years' purchase. This should be "nearer twenty-one years," p. 386.)

(c) *Farmer's Capital*. "Paget's Return" gives £300 millions for 1885, and Major Craigie the same amount for 1887. Giffen's estimate was based on the Schedule B assessments of farmer's profits, which merely bear a conventional relation to the rent of their land (pp. 386–7).

(d) *Mines and Quarries*. Giffen took four years' purchase, 9½ y.p. suggested instead (p. 392). For *Ironworks* Stamp takes 9 y.p. instead of Giffen's 4 y.p.

(e) "*Other Public Companies, Trades, and Professions*" (now classified as "Business not otherwise detailed"). The estimate for this important item is open to a large margin of error in each case. Giffen's estimate of £1,360 millions was obtained by assuming *one-fifth* of the profits of private businesses to be derived from capital, and capitalising this part at 15 y.p. The profits of public companies he capitalised at 20 y.p. The inadequacy of this method is revealed by the change in the proportion of the profits assessed on private businesses and public companies respectively in the period following 1885. Sir Leo C. Money's method is to take half the whole net profits (+ an estimate for evasion) and capitalise at 10 y.p. Stamp's estimate for 1914 is the mean of the results of the two methods (though in the Giffen method he adopts 15 y.p. for public companies). The two results differ by £1,560 millions in 1914. The difference is much less in 1885—only about £100 millions—and the mean in this year is about £1,280 millions. (If 15 y.p. is adopted for public companies as in 1914, the result of both methods is about the same—say £1,200 millions.) (See pp. 393–8.)

(f) *Foreign and Colonial Securities—Coupons*. The figures here relate to income from foreign securities, *other than* Foreign and Colonial Government Funds taxed under Schedule C. Bankers and Coupon Dealers paying interest on Bearer bonds were not directly assessed before 1886 (Coupon Act), and consequently, before that date, much foreign income escaped taxation. The assessment in respect of Coupons was £19 millions in 1913–14 (p. 227).

(g) *Income from Abroad Escaping Tax*. Giffen's 1885 estimate was based on a misconception. He took £50 millions as the income and capitalised at 10 y.p. Stamp, for 1914, takes £20 millions as the income from abroad not remitted and thus escaping assessment,

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and capitalises at 20 y.p. Bowley's estimate for evasion both as regards home and foreign income is £60 millions for 1880. Giffen's estimate for home income evasion was £36 millions. The difference between the two figures—24 millions—may or may not represent approximately the true figure for foreign income evasion at that time. But there is no reliable estimate. £24 millions capitalised at 15 y.p. gives £360 millions (pp. 401-2; see also Bowley, *Change in Distribution of National Income*, p. 9).

(h) *Capital of Non-Income Tax-paying Classes* not included in the Income Tax categories. Income below the tax limit from most of the chief sources is included in the gross Income Tax assessments. This item refers chiefly to the stock-in-trade, etc., of small shopkeepers and workers on own account. Giffen's estimate was here again based on a misconception. Bowley puts the number of those with "intermediate incomes" under £160 at 1,850,000 in 1880, and 4,310,000 in 1913. If, on this account, we halve the 1914 estimate for non-Income Tax-payers' private capital we get £100 millions for 1885 (see pp. 398-9, and Bowley, *op. cit.*, pp. 11 and 16).

(i) *Moveable Property not yielding Money Income*. Giffen's estimate is criticised as too high by various authorities; the revised figure is obtained by reducing the 1914 figure roughly in proportion to the total capital (pp. 400-1).

(j) *Schedule C. Government Securities and National Debt*. Giffen deducts the National Debt from this Schedule. Stamp deducts it from the valuation of Government property in the next item (pp. 388-9 and 402-4).

Giffen's figure for Central and Local Government property is £500 millions. This estimate appears to contain some items duplicated above (such as interest secured on Rates). The revised figure of £250 millions is simply Stamp's 1914 figure reduced approximately in proportion to the total capital. But all estimates of Government property, such as roads, bridges, sewers, etc., are necessarily unsatisfactory and arbitrary, as they do not come into the market.

For a valuation of the total *private* property of the people of the U.K., we ought to deduct this last item; but the National Debt may be left in, since we are concerned with the aggregate value of property rights, rather than an inventory of goods. The National Debt was a comparatively small item in 1885-1914, so its inclusion or exclusion makes little difference in a comparison.

NOTE 1 TO PAGE 139. See lists of Estimates in Stamp, *op. cit.*, p. 406.

According to Giffen, the value of the National Capital was £4,000 millions in 1845, £6,115 millions in 1868, £8,548 millions in 1875, and £10,037 millions in 1885. If we correct for changes both in prices and the rate of interest, using 1912 as a base, these valua-

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tions become £3,700 millions in 1845, £5,100 millions in 1868, £6,750 millions in 1875, £9,900 millions in 1885. Correcting for changes in prices only, the figures are: 1845, £3,780 millions; 1868, £5,000 millions; 1875, £6,700 millions; 1885, £10,500 millions. The increase in the valuation, in the thirty years 1845 to 1875, expressed as a percentage of the 1875 capital is—(i) for the “uncorrected” figures—53%; (ii) for figures corrected for prices and the rate of interest, 46%; and (iii) when corrected for changes in prices only, 44%. In each case the percentage is much greater than that for the thirty years 1885–1914, which, calculated on the same plan, would be about 37%.

CHAPTER VI

A SAMPLE INVESTIGATION OF THE FORTUNES OF PARENTS AND CHILDREN ¹

§ 1. WE decided at the beginning of the last chapter that, in order to gauge the influence of Inheritance on the distribution of wealth, two questions of fact require to be answered—*first*, what proportion of the aggregate property has been acquired by inheritance, and *second*, whether the larger estates belong on the whole to those with the larger inheritances. The first question, taken with reference to pre-war Britain, was the subject of the last chapter; it related to what one may call the direct influence of inheritance on the distribution of property. The second question, which is the main subject of the present chapter, has a rather wider bearing and takes into account the effects of unequal inheritances on earnings and savings.

In the comparatively stable times of the late Victorian era, it was often asserted that the large fortunes of one generation are quickly disintegrated in the next or the next but one.² In the industrial North of England "three generations from clog to clog" was a common saying. To-day, the "self-made" man and the beggared aristocrat are commoner types than twenty years ago, and the revolution in property values during the War epoch, aided no doubt by drastic increases in the Death Duties, has lent colour to the widely held opinion that most rich men owe their fortunes to ability and lucky enterprise rather than inheritance. How far is that view an accurate one in present-day Britain?

¹ Parts of this chapter have previously appeared in an article in the *Economic Journal* of March, 1928, and are here reprinted by the courtesy of the Editor, but in a revised form.

² As an absurdly extreme example of this view, see the remark of Leroy Beaulieu in his essay on the Distribution of Wealth (1880) that it was almost as difficult to preserve as to create a large fortune (quoted in Dalton, *Inequality of Incomes*, p. 282).

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Of published information on the subject, there is little that is of value. The biographies of millionaires deal generally with lives that are by no means typical of those of the richer classes as a whole. It is usually only the lives of exceptional people that appeal to the author, the publisher, and the newspaper editor. Far more space is rightly allotted to the cabin-boy who becomes a captain of industry, than to the mediocrity of hereditary wealth or hereditary poverty. It would obviously be unwise to base on the lives of Carnegie or Lord Leverhulme generalisations about the economic history of members of the upper classes in America and Britain. The obituary notices of more mediocre men in the daily press are also liable to be misleading, since they usually lack precise information on financial matters. There is, indeed, a limit to the fertility of private inquisitiveness, and that limit is soon reached, when one is dealing with the economic conditions and histories of one's fellows.

Even the powers of inquisition of the Board of Inland Revenue are at present too limited to enable the authorities to find out the exact amount of gratuitous property acquired by any given individual. At present its published records cannot be of much direct service; for they are bounded by the limits prescribed by the necessities of taxation; and our fiscal system does not attempt to distinguish between property acquired by inheritance and by other methods.¹

There is, however, one source of information which does not seem to have been tapped hitherto. The Probate Registry at Somerset House contains particulars and copies of practically all the probates and letters of administration granted in England and Wales since the year 1858, and a good many of those

¹ I imagine, however, that it would be physically possible for the Inland Revenue authorities, in the case of decedents among the richer classes, to ascertain the total amount received by them, on which they had paid legacy or succession duty, and the proportion which that amount bore to the total value of their estates as declared for probate. But a good many inheritances and bequests are exempt from the legacy and succession duties. Nor would the authorities be able to trace the bulk of gifts given or received during lifetime in individual cases.

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granted before that date.¹ It seemed, therefore, possible to take a sample of well-to-do persons who died recently, and to ascertain for comparison the estates left by their parents or other relatives under whose will they benefited. Such an investigation would enable one to see more clearly the extent to which the distribution of property is or is not hereditary in character. A comparison of the probate values of the estates of two generations is, of course, only a rough test. For, in the first place, the amount of property which a man leaves at death is not a really satisfactory index to his economic condition during life, and still less to the economic benefits and opportunities which he is able to transmit to his children. I have already referred to the various methods alternative to inheritance by which property (and a superior capacity to acquire property) may be obtained gratuitously. But, apart from that, we have also to remember that even with unlimited expenditure of time and money on a careful examination of wills, it is often not possible to find out the precise amount which a man inherits, let alone receives by way of gift or settlement. Not only may he benefit under a number of different wills, but, in any given will, the extent of his benefit is usually not stated explicitly as a sum of money. It may be a business or a landed estate of unknown value. Again, the trust fund is a common feature of many rich men's wills, and the *ultimate* benefit of any one beneficiary depends largely on whether the other beneficiaries predecease him, whether they leave children or not, and so on.

It is only feasible, therefore, to make a rough comparison between the estates of successors and predecessors, bearing in mind that that in itself is sometimes a misleading index to the relative wealth of the individuals concerned.

Even for this limited purpose, the Probate records are not, by

¹ Before 1858 (Court of Probate Act, 1857) the probate of English wills of personalty was within the jurisdiction of the Ecclesiastical Courts, and only those proved in the Court of Canterbury are in the records of Somerset House Probate Registry. Since January 1st, 1858, the Registry is supposed to contain particulars of all English estates passing under will or intestacy. In fact, there are probably a few omissions in the earlier years.

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themselves, an adequate guide. In the first place, the Probate valuations do not include settled property, of which the deceased was not competent to dispose. Secondly, they do not include property situated abroad. Thirdly, before 1898, they do not include Realty.¹ The omission of settled property is a grave defect for our purposes. The second omission is not so important. The omission of realty before 1898 can be partially remedied, because there are supplementary sources of information as regards landed property, to which I refer below. Although, for these reasons, the Probate records are far from ideal as a basis for statistical investigation, they are nevertheless the only reliable source of information available at the present time.

I took two separate samples of persons who died in recent years, and endeavoured to ascertain in each individual case the amount of property left by the father or other predecessor from whom the chief inheritance was likely to be received. The first sample is composed of ninety-nine persons whose estates were proved as over £200,000 gross during twelve months in 1924-5. *The Times* list for the year in question—which may be taken

¹ The probate values of estates relate only to that property in respect of which a Probate Grant is required in this country. In general, therefore, they cover only real and personal property situated in the United Kingdom, and within the free disposition of the deceased. It should be noted, however, that property received under a settlement, which terminates on the recipient's death, and is thus within the disposition of the testator, would be included for probate. Also personalty situated at home is not confined to home investments, but would include shares in companies trading abroad, but registered in this country.

Before 1898 (Land Transfer Act, 1897) probate was required in respect of *personalty only*, and the probate values are the same as those on which the old Probate Duty was paid (before the Harcourt Estate Duty of 1894). Personalty included Leaseholds for a term of years. Before 1883, the values are only stated in round figures (e.g. not exceeding £500,000 or £450,000 etc.). Gifts *inter vivos* are not included in the probate valuation.

The relation between probate values and total value of estates, and the effect of excluding realty and settled property, etc., may be gauged from the following figures taken from the Estate Duty Statistics. But note that in the 1897-8 figures the relative propor-

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as complete for estates of this size ¹—contained altogether 117 names. Of these fifteen were Scottish, Irish, or foreign residents, and in another three cases the parents' estates were known to have been probated outside England. I discarded the latter, and confined myself to the ninety-nine English

tion of settled property is understated, because before 1914 settled estates were only taxed *once* in the course of settlement.

	GREAT BRITAIN.			
	1897-8.		1924-5.	
	Gross.	Net.	Gross.	Net.
	£ mills.	£ mills.	£ mills.	£ mills.
PERSONALTY situated in U.K. (Great Britain since 1922), passing under will or in- testacy of the deceased . . .	183·37	168·87	342·96	317·72
Do. do. situated abroad . . .			7·88	6·78
Settled Personalty . . .			51·92	51·89
<i>Inter vivos</i> gifts and Other Personalty . . .			6·99	6·97
<i>Total Personalty (including Leaseholds)</i> . . .	235·88		409·7	383·4
REALTY , passing under will or intestacy (within U.K. only)			67·18	57·06
Settled Realty . . .	21·97		24·13	20·25
<i>Inter vivos</i> Gifts and Other Realty . . .			0·47	0·44
<i>Total Realty (excluding Lease- holds)</i> . . .	65·73	53·91	91·78	77·74
Total Property subject to Estate Duty . . .			501·5	461·1

After January 1st, 1926, the value of *settled land* is included in the amount of the probate grant.

¹ *The Times* office states that, in their opinion, the lists of wills published by them may be regarded as complete for all estates over £100,000. The sample was taken from the lists between September 1st, 1924, and August 31st, 1925, inclusive.

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estates which could be investigated in London. Only six of these belonged to women.

Now, according to the Estate Duty Statistics, there were, during the year in question, about 135 English estates of over £200,000 net, and of these about eighteen belonged to women.¹ The reason for the discrepancy in the totals and in the proportion of women's estates is to be found in the exclusion of settled property from the Probate figures. Since women's inheritances are more often settled than men's, and the landed families also frequently entail their estates, one important effect of this exclusion is to reduce the proportion of persons in the sample whose property is derived largely from inheritance.² This consideration must be borne in mind in any critical examination of the results of my investigation.

Of the six women's estates in the sample, four belonged to widows, and in the case of the latter I chose for comparison the estates of *either* husband *or* father, choosing the one under whose will the widow appeared chiefly to have benefited. In the case of the ninety-three men's estates, I assumed, in the absence of definite information to the contrary, that the chief inheritance had come in the direct line of descent from the father. There were four exceptions among the landed gentry, where it was known that the title and estates had descended

¹ In the year to March 31st, 1925, 145 English estates worth over £200,000 became liable to estate duty. The corresponding figure in 1925-6 was 125. Men's and women's estates are distinguished in the classes over £250,000 and £100,000 to £250,000. The proportion of women's estates for the over £250,000 class is 1 in 8 or 9, and for the next class, 1 in 6.

² According to the Estate Duty figures for 1924-5 and 1925-6, settled property formed 11.1% and 13.6% respectively of the total property held by men, but as much as 26.4% and 26.1% of women's estates.

Settled property is also a much larger proportion in the case of landed estates than in the case of personality. Settled realty was 26% of total realty in 1924-5 and 32% in 1925-6; while the proportion of settled to total personality was not more than 13.5% and 14.3% respectively. Women and landed gentry are therefore necessarily under-represented in my samples.

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from a brother or an uncle; in three other cases I took for comparison the estate of the wife or father-in-law rather than that of the father; and in another three cases, where the father's estate could not be found, I substituted the estate of another relative of which the probate or administration had been granted to the successor in my sample. In another case, where the father's estate was not found, I had to be content with the estate of the grandfather. I should add that in the majority of cases, where the estates of brothers, husbands, or wives were taken instead of those of the fathers, they had passed more than thirty years before the death of the successors.

The names of the fathers or other predecessors were ascertained in ninety-three out of ninety-nine cases, from directories and obituary notices, from the Register of Births at Somerset House, and from information kindly supplied by the personal representatives of the deceased.¹ In eighty-three out of ninety-three cases, the predecessor's estate was found in the Probate Registry, and in another six cases, the estate could safely be put at under £1,000. Thus the first sample contains eighty-nine "effective" cases out of a possible ninety-nine, and of the eighty-nine estates, six belonged to women.

The *second sample* investigated consisted of 140 English estates between £10,000 net personalty and £200,000 gross, re-

¹ By courtesy of the Registrar-General, a search of some 150 birth certificates was undertaken by his department, 45 of these in respect of the first sample and 105 in the second. Those born before 1837 would not be registered at the General Register Office, and for some years after that date there is, I am informed, a deficiency of perhaps 10% or so of births and more in some districts. The deficiency is not confined to the poorer classes.

In a few cases in the first sample, and in still more in the second sample, the name was too common for identification. In other cases, it is fairly certain that the child was born outside England. I am very greatly indebted to the personal representatives of ten persons in the first sample and thirteen of those in the second, who kindly supplied particulars as to the name and date of death of the parent. A few were good enough to add the value of the parent's estate, and one deserves honourable mention for supplying full details of the successor's inheritance.

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ported in *The Times* during six weeks of January and February, 1926. The sample was chosen on a purely arbitrary basis.¹ But all persons born before 1837 were excluded, for the practical reason that births were not registered in the General Register Office at Somerset House before that year, and their parentage therefore could not be ascertained.² I also discarded those who died during the lifetime of their parents. Some fourteen estates were excluded for these two reasons.

It was also necessary to exclude all married women and widows whose husbands' or whose maiden names were not stated, as, in such cases, the difficulty of finding the wills by which they benefited would have been insuperable. For this reason about one-half of the women's estates had to be discarded.

The sample finally consisted of 108 men's and sixteen women's estates.³ As before, the exclusion of settled property from the probate figures must result in reducing the proportion of women and other inheritors of settled property, who would otherwise have come into the sample.

It was naturally a more difficult matter than in the case of the first sample to find the parents of the successors in question, but after searching in the same sources as those mentioned above, the names of the fathers were definitely identified in 108 out of 124 cases. The estates of the predecessors were found in the case of 78 out of 108 men, and in another eight cases it was fairly certain that the estate did not exceed, say, £1,000.

¹ As regards five of the six weeks, only those with surnames beginning A to H were included, in the remaining week all were included. *The Times* lists are probably not complete for estates under £50,000. But there does not appear to be any particular bias in those that are published.

² Persons born before 1837 were included in the first sample as, in most cases, their parents could be found from directories or obituary notices.

³ In addition to the omissions above mentioned, I excluded also two cases, where the fathers were known to have died outside England, leaving no English estate.

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The estates of husbands or fathers were found in the case of all sixteen women.

§ 4. I mentioned above that the probate valuations do not include *realty* before 1898. In the case of estates left before that date, therefore, it was obviously necessary to supplement the probate values by estimates of the deceased's real estate. The only supplementary source of information that is at all easily available is the Return of Landowners, or *New Domesday Book*, which was made by the Local Government Board in the seventies, and set out to give county by county the names and addresses, numbers of acres owned and gross annual value in the case of all landowners of more than one acre. The Return has many deficiencies as a work of reference; and it excludes the Metropolis.¹ Moreover, in accordance with the agricultural assessments, it understates the value of building land in neighbourhoods that are developing. Again, the owners of freehold premises occupying less than one acre would be excluded. As regards the big landowners, later and more accurate information can be obtained from other works of reference.²

In the case of twenty-five predecessors in the first sample, and twenty-four in the second, rough estimates of the value of the real estate left by them were made from these sources. Of course the estimates could only be very rough. For it was not certain at what number of years' purchase the gross annual value given in the returns should be capitalised and, in a number of cases, one was also forced to assume that there was no great change between the seventies and the date of death in the amount of land owned. But the valuable review of the subject given in Sir Josiah Stamp's *British Incomes and Property* shows the number of years' purchase at which the chief authorities capitalised the gross annual value of land at different dates; and figures of rentals given some time ago by Mr. R. J. Thompson enabled one to make an approximate allow-

¹ For the defects and inaccuracies of the Returns, see the official introduction to them.

² E.g. Bateman's *Great Landowners* (1883 edition used).

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ance for the decline in agricultural land values during the slump of the eighties and nineties.¹ But my estimates of realty could not take into account mortgages and other charges to which the property might be subject. The method certainly allows large possibilities of error, but it was not too unsatisfactory under the circumstances. Even quite large errors in the estimates of real property left by the forty-nine persons in question would not make a great difference to the results as a whole, especially as only in ten cases was the realty estimated to exceed £100,000. In the case of seventeen predecessors in the first sample, and twenty-four in the second, dying before 1898, no landholding could be traced in the official return, and only the personalty valued for probate could be included. In the aggregate, there is probably an under-statement rather than over-statement of *realty*. My estimates of the *realty* of those dying before 1898 amounted, in the first sample, to £1·704 millions out of nearly £8,000,000 for their total property; in the second sample, the corresponding totals (in the case of men's estates only) were £347,500 for realty out of £1,508,000. The ratio of estimated realty to probate value of personalty is 27 per cent. in the first case, and 30 per cent. in the second; whereas the Estate Duty figures for 1897-8 showed a ratio of 32 per cent., and later figures indicate that the proportion is rather higher in the case of the larger estates.

It is to be remembered, however, that the estimates of realty include *settled* property, while the probate values do not. Hence the aggregate of the predecessor's property includes a certain proportion of landed property passing under entail, while the figures for the successors' estates relate only to property within their free disposition. In fact, however, this discrepancy makes little difference in the aggregate,² and, in a

¹ Applying the index-number of agricultural rentals at different periods to the number of years' purchase at those periods, I took the following number of years' purchase of the 1870-80 gross annual value of lands in rural areas for estates left at the following dates: 1875, 30 y.p.; 1885, 23 y.p.; 1895, 15 y.p. For urban realty I took 15 y.p. throughout.

² Assuming that as much as one-third of the estimated realty of

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number of individual cases, it is clear that the entail ceased on the death of the successor.

With regard to the period chosen for the investigation—namely, the generation that ended in 1925—in some respects this is not the most satisfactory for our purpose. For it includes the abnormal War period, when “windfalls” due to rapid changes in prices and abnormal conditions of demand contributed far more to the establishment of new large fortunes than they did in the preceding generation or are likely to do within the lifetime of the present generation in this country. But had an earlier period been chosen, the technical difficulties would have been greater.¹

I give below a summary of the results of the investigation of the two samples. Each is dealt with separately in turn, and the results are then compared.

FIRST SAMPLE—ESTATES OVER £200,000

§ 5. The following table (Table I) shows (i) a classification of those in the sample according to the size of estates left by their predecessors, (ii) the aggregate value of the successors' and predecessors' estates, and (iii) an estimate of the proportion of the latter bequeathed to the successors. (Note that in seventy-five out of eighty-nine cases, the “predecessor” is the father, in four cases the brother, in two cases the uncle, in three cases the wife, in three cases the husband, in one case the father-in-law, and in one case a grandfather.)

(i) *Distribution of Predecessors' Estates*.—Looking first at the eighty-nine known cases, we find that forty-five of the pre-the predecessors was entailed (see note 2 to p. 150), the aggregate value of their unsettled property would need to be reduced by about 6½% in the first sample, and not more than 4% in the second.

¹ For a larger proportion of predecessors would have died too early for their estates to be entered in the London Probate Registry, and outside estimates of realty would have been necessary in a larger number of cases. Moreover, a larger proportion of successors would have been born before 1837, the year in which the English Registry of Births was started, so that their parentage could not have been ascertained from birth certificates.

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TABLE I

Amount of Predecessors' Estate (gross value—passing under will or intestacy). (a)	Men Successors with Estates—			Men Successors with over £200,000.	Women Successors with over £200,000.	All (both sexes).
	Over £500,000.	£300,000—£500,000.	£200,000—£300,000.			
Over £1,000,000	3	1	2	6	1	7
£500,000—£1,000,000	4	3	2	9	1	10
£250,000—£500,000	3	2	3	8	2	10
£100,000—£250,000	—	4	12	16	—	18
£50,000—£100,000	1	2	5	8	—	8
£25,000—£50,000	1	2	4	7	—	7
£10,000—£25,000	—	—	2	2	—	2
£5,000—£10,000	1	2(b)	3	6(b)	—	6
£1,000—£5,000	2(c)	1	3(c)	6(c)	—	6
Under £1,000	4(d)	5(d)	6(d)	15(d)	—	15
Total known	19	22	42	83	6	89
Predecessors' estates unknown	1	2	7	10	—	10
Total in Sample	20	24	49	93	6	99
Estimated number excluded from sample owing to omission of settled property	—	—	—	21	12	33
Total indicated by Estate Duty figures.(e)	—	—	—	114	18	132

	£000s.	£000s.	£000s.	£000s.	£000s.	£000s.
Aggregate Value of successors' estates (Where predecessors' estates known)	19,600	9,277	11,790	40,667	3,415	44,082
	(18,959)	(8,646)	(10,105)	(37,710)	(3,415)	(41,125)
Aggregate Value of predecessors' estates	8,180	5,656	8,547	22,383	3,470	25,853
Proportion of predecessors' estates bequeathed to successors (rough estimate)	%	%	%	%	%	%
	56	43	41	47	87(f)	49
Ratio of Bequests to successors' estates (rough estimate)	%	%	%	%	%	%
	23	26	30	26	70	29

(For notes a, b, c, d, e, f, see next page.)

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Notes to Table I.

- (a) Including settled land in certain cases—see text.
- (b) This class (£5,000–£10,000) includes one estate which probably belongs to a higher class, as letters of Administration were granted in respect of certain Trust property only. The other property was known to include certain landed estates, but the value could not be ascertained. A will was made but never proved.
- (c) This class (£1,000–£5,000) includes (i) one case where successor's father died too early for inclusion in Probate Registry. His wife's unsettled estate was over £3,000, but his brother-in-law left over £400,000, and his uncle nearly £200,000; (ii) in another case the estate of the father (a shipowner) was not found, and the estate of the grandfather (a grocer) was taken instead.
- (d) This class (under £1,000) includes (i) seven predecessors whose estates were not found; six of these were known to have been relatively poor and one who was well-to-do had distributed all his property, during his lifetime, to his children; (ii) also includes one case where successor's father died before 1858. The unsettled estate of his wife (just under £1,000 personalty) was taken for comparison. But her brother left over £400,000. (ii) also includes another successor whose father left just under £1,000, but who was connected with an aristocratic family on his mother's side and changed his name "for family reasons."
- (e) Total English estates over £200,000 net capital value—settled and free—subject to Estate Duty during year in question—about 135. Three English estates were excluded from my sample, as the father's will was proved in Scotland or Ireland. The comparable total is therefore put at 132 (see text).
- (f) Bequests to women estimated in five cases (three widows, one married, one single—all were the sole principal legatees under will of husband or father).

decessors, or just over half of them, left estates (excluding all settled personalty and most settled realty) of over £100,000; fifty-two, or nearly three in five, left over £50,000; and sixty-two, or seven in ten, left over £10,000.

There were eight millionaires among the successors in my sample, including one woman; only in *one* case had the predecessor left less than £50,000,¹ and in six cases his estate was over £250,000. There were twenty-two successors (including two women) with over half a million pounds, and in twenty-one cases the approximate value of the predecessors' estates is known. Twelve of the latter were worth over a quarter of a

¹ This one case is a most remarkable one. A wool merchant left over £1,500,000. His father was apparently a weaver—smallholder. His estate was not found in the Probate Registry. But the will of the mother was found—under £40 personalty. The mother was apparently illiterate, as her will was signed by her mark. The son's history is shrouded in obscurity, but must contain features of considerable interest.

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million pounds, while only seven were less than £25,000.

I have already explained that the values mentioned refer, for the most part, to unsettled property only; that no allowance can be made for gifts *inter vivos*; and that the predecessors, whose estates are chosen for comparison, are the fathers or other near relatives, under whose wills or intestacy the successors in question were known to benefit directly. Thus it cannot be inferred, for example, that *all* the twenty-one successors, whose predecessors' estates are put at under £5,000, had little or nothing to build upon in creating their fortunes. For two, at least, it is known, had wealthy connections by marriage, and the same applies in at least two other cases where the parents' estates are in the £5,000 to £25,000 class. Another had received his share of his father's property during the latter's lifetime. (See Notes to Table.)

It will be noticed that the predecessors of all the six women in the sample were in the over £100,000 class, and that the proportion of wealthy predecessors is thus less for men only than for both sexes. It is an obvious though significant observation that a larger proportion of women's than of men's property must be due to inheritance. In the case of the men successors only, in this sample, rather more than half the predecessors left over £50,000, but nearly one-third left under £10,000.

Such are the facts regarding the eighty-three men and six women whose predecessors' estates were found or could be estimated. There remain ten male successors in the sample, whose predecessors' wealth is not known. It cannot be safely assumed that in all these ten cases, the parents left little or nothing. In eight of these cases the fathers' names were not known, and I have already explained that poverty cannot be inferred from that; and in one of the two remaining cases the father died before the commencement of the Probate Registry. Nevertheless it is probable that the majority of those, whose parents' estates were not found, were "self-made" men. Thus the sample is biased by their exclusion, in the direction of showing rather too high a proportion of wealthy predecessors. But, on the other hand, as I showed above, the sample was

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biased at the start in the opposite direction by the omission of settled property, so that women and classes such as the landed gentry, whose inheritances are frequently settled or entailed, were under-represented.

By a comparison between the number of estates valued for probate at over £200,000 and coming into the sample, with the number in the same class reviewed for Estate Duty in the same year, I have estimated that some thirty-three persons (about twenty-one men and twelve women) were excluded from the sample, owing to the omission of their settled property from the probate figure. It is clear that the large majority of these would be inheritors rather than active creators of fortunes. If one makes the assumption—which is, on balance, probably not far from the truth—that all the ten predecessors, whose estates were not found, left less than, say, £10,000, and, on the other hand, that the predecessors of those not coming into the sample, owing to the omission of settled estate, left over, say, £50,000—then the *proportion of predecessors with over £50,000* is about *three in five* in the case of the men successors, and not quite *two in three* in the case of both sexes. The proportion of predecessors leaving relatively little property (say, under £10,000) would be between *one-quarter* and *one-third*.

§ 6. (ii) *Aggregate Value of Successors' and Predecessors' Estates*.—The aggregate value of the property left by the eighty-three men successors in the sample is put at £37.7 millions, while the aggregate left by their fathers (or other predecessors from whom they inherited) is estimated at £22.4 millions. The estates of the six women successors amounted to £3,415,000, and those of their fathers or husbands to £3,470,000.

It must be remembered, in comparing these totals, that they relate to the gross value of property passing under will or intestacy, exclusive of property abroad. Settled property is not included, except that a certain amount of settled land has been incorporated in the aggregate of the predecessors' estates (probably about £2 millions in all), but the bulk of this settled land appears to have been within the free disposition of the heirs in the sample at the time of their death. It is necessary also to

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remember that what is settled in one generation is not necessarily settled in the next, or, in other words, that much of the property enjoyed by the fathers but not within their free disposition may come within the disposition of the sons, while much of the sons' settled property may have been settled under the wills of their fathers. Nor can it be assumed that, if the custom of settling property had been equally common in the two generations, the ratio of settled to "free" property would be about the same in the case of both predecessors and successors. For, as I have previously shown, persons with large settlements are under-represented as regards successors in the sample, whereas there is no reason why they should be under-represented as regards the predecessors.

The same consideration applies also to gifts *inter vivos*. As regards the successors in the sample, there is a bias against persons who made large gifts during life—i.e. such persons would be under-represented—but no such bias exists in the case of their predecessors. The fact that persons dying in 1924 probably gave away a larger proportion of their property (owing to fear of Death Duties) than persons dying in 1894, does not outweigh this consideration.

Thus the totals of the aggregate property of predecessors and successors, given in the Table, can only be regarded as a very rough indication of the actual amount of property enjoyed by each generation during life. If both settlements and gifts *inter vivos* could have been included, the predecessors' property would certainly have been increased in a higher proportion than the successors'.

In the second place, it is necessary to bear in mind, when comparing predecessors' with successors' estates, that the bulk of the property of the former passed between 1880 and 1905, when the whole scale of prices and property values was quite different from that ruling to-day. The £26 millions left by the predecessors could, in the form of cash, have bought as many commodities at the time of their death as about £48 millions in 1924, and, on the basis of this reckoning, their property was worth rather more than that of those of their successors who

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appear in my sample. But, owing to the higher rate of interest accompanying the rise in commodity prices, property values as a whole have not increased to the same extent as the general price level. £26 millions invested in 1880-1905 would have produced then about as large a secure "real" income of consumable commodities (*before* direct taxation) as £30 millions in 1924, or as large a "real" *net* income, *after* direct taxation, as about £40 millions.¹ But the effect of the great price changes, during the generation in question, in *individual* cases, would depend, of course, on the nature of the property, and whether it was kept in gilt-edged securities, or in land, or was put into the more speculative investments of industry and commerce.

As regards the relative magnitude of the individual fortunes of the predecessors, it may be useful to remember that probably about the same proportion of the people in 1894 owned estates in excess of £130,000 as were in the over £200,000 class in 1924.²

§ 7. (iii) As regards the *proportions of the predecessors' estates bequeathed to the inheritors* in question, my estimates are necessarily very rough. I have previously explained that, even after a most careful and detailed examination of a will, it may often be impossible to ascertain the exact value of a disposition, when this is not a definite cash sum. But I had no opportunity for making a thorough analysis, and my estimates are based on a cursory examination of some seventy-five wills, in fifty-four of which the nature of the dispositions was sufficiently clear to enable some estimate to be made of the portion going to the successor in my sample. In making the estimates,

¹ The increase in commodity prices during the generation in question was about 85%, and the yield on Consols moved from about 2·8% to 4·4%.

² According to the Estate Duty figures for 1895-6, 204 persons in England left estates exceeding £100,000, and 119 exceeded £150,000; while the number exceeding £150,000 and £200,000 was respectively 215 and 145 in 1924-5, and 202 and 125 in 1925-6. The number of persons dying at ages over forty-five was rather *less* in 1925 than in 1895.

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I made an approximate allowance for Death Duties, debts, and other deductions from the gross value of the estate; and I assumed that in every case property left for life only to a surviving widow passed intact to the surviving beneficiaries. But I was not able to allow for the effects of the decease of some of the surviving children prior to that of the successor in my sample. Hence, in those cases, for example, where A leaves property to B and his issue, with remainder to C, and B dies without issue before C, I may have considerably under-estimated the ultimate inheritance of C under the will of A. In individual cases, my estimates may be far from the truth, and in the aggregate there is likely to be a considerable margin of error, though it could hardly be greater than about 15 per cent. Thus the proportion of the predecessor's estates bequeathed to the successors in the sample may be put at about 45 to 55 per cent., and, in the case of male successors only, at between 40 and 50 per cent. The aggregate of these bequests may be estimated very roughly at £10 to £14 millions—an average of over £100,000 per successor.

It is important to notice that the bequests, to which these estimates relate, are in the large majority of cases those from the fathers only, and are in any case from *one* predecessor only in the case of each successor; that they do not, for the most part, include property received under settlement;¹ and that they do not include gifts received from parents during the latter's lifetime. They form, therefore, only a fraction—and of course a varying fraction in individual cases—of the total gratuitous property which the successors in question received from all sources, by way of bequest, inheritance, settlement, and gift.

The Legacy and Succession Duty figures indicate that property passing in the direct line from parents to children forms little more than half the total value of legacies and successions.²

¹ I.e. property settled otherwise than under the will of the predecessor.

² In 1925-6, of the capital on which Legacy and Succession Duty was paid, only 44·3% was passing in the direct line, 15·3% between

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When allowance is made also for the exclusion of property passing under settlement, it may reasonably be supposed that the total inherited property received by the successors in my sample was roughly *double* that shown in the above Table. Thus, while the property received from the fathers, under will or intestacy, appears in the aggregate to be about *one-quarter* of the value of the total property of the sons, the ratio of inheritances from all sources is likely to be more nearly *one-half*.¹ As regards the distribution of those inheritances one may fairly

husband and wife, and 31% between other relatives. Bequests between spouses and in the direct line are, however, not liable to L.D. and S.D. when the estate within the deceased's disposition does not exceed £15,000, or when the legacy or succession is not more than £1,000. But legacies and successions from other relatives are generally not exempt for all unsettled estates over £1,000, though certain classes of property are exempt under certain circumstances. If the legacies and successions liable to L.D. and S.D. are increased roughly in the same ratio as the value of estates over £1,000 to those over £15,000 (i.e. by about 53%) the proportion of the total passing in the direct line becomes 52%, those between spouses account for nearly 18%, and those between other relatives 24%. These proportions have not varied much during the past twenty years.

The proportion of legacies and successions coming from *fathers* to sons only may perhaps be put at about 40% of the total, on the assumption that the proportion of the direct line inheritances from the *mother* is about the same as the ratio of women's property to the total in the case of the larger estates (25½% for estates over £10,000 and 21½% for estates over £25,000). On similar lines, property passing from wife to husband may be put at about *one fifth* to a *quarter* of the total passing between spouses.

¹ Bequests to the male successors in my sample *from their fathers* are estimated roughly at £10 millions (\pm £1.5 millions). If we suppose that the proportions of their inheritances from various sources were about the same as those estimated above for all legacies and successions, then to this £10 millions we ought to add 50% to 60% for collateral inheritances, and another 30% to 35% for inheritances from mothers and wives, making a total of £18 millions or so received under the will or intestacy of relatives. To this should be added another, say, 15% for property received under settlement, not previously included—making £21 millions in all as the total of their inherited property—an average of over £200,000 per head.

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hazard that about half the sons in the sample had received upwards of £50,000. It has already been noticed that the proportion of inherited property is very much higher in the case of the women's estates of which comparatively little can have been due to saving.

The amount of property which the successors received by way of gifts *inter vivos* cannot be estimated. Gifts *inter vivos* are the unknown quantity which is always likely to upset the calculations of students of inheritance problems. It would be a mistake to imagine that they were of little importance before the rise of the Death Duties, for they are frequently referred to in the wills of a generation ago; and, in at least one case in the sample, all the property had been disposed of in this way.

§ 8. The proportion of the predecessors' estates going to the successors in question was roughly estimated at nearly 50 per cent.; but the average number of surviving children benefiting under their fathers' wills was about five in each family, or twenty-four sons and twenty-seven daughters in each ten families.¹ These figures, by themselves, are a sufficient indication that equal division between the family is not the general rule among the richer testators. Not only was it common, among the richer predecessors in my sample, to bequeath a larger share to the sons than to the daughters; but frequently also the lion's share of the estate went to one particular son—usually, but not always, the eldest. This was not only due to the custom of primogeniture among the landed aristocracy, who form but a fraction of the sample, but also to the intellig-

¹ This was the average in fifty-three cases, where information as to the number of children benefiting under the will was available. The average, weighted according to the size of estate disposed of, would not have been very different. In the case of forty estates over £50,000 it was 2.5 sons and 2.9 daughters per family. Compare the Registrar-General's figures relating to the number of children surviving in 1911 per fertile and infertile couple married before 1851. The number was 470 of both sexes per 100 couples for all classes, and 418 in Social Class I (upper and middle classes). (See T. H. Stevenson in *Stat. Jnl.*, May, 1920, discussing the Census, 1911, Returns of Occupational Fertility.)

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ible desire of wealthy business men to perpetuate their economic power by leaving a large property intact in the hands of a single descendant, particularly when a minor portion of the estate is sufficient to provide for the reasonable requirements of the other members of the family. It is natural also that, where a business is to be disposed of, the controlling shares should be left to the one or two male members of the family who have shown most aptitude for carrying it on.

As examples, we may cite the case of a chemical manufacturer, with close on a million pounds to distribute between five sons and four daughters, who bequeathed £150,000 between eight of his children, and left the whole residue to the remaining son. A shipowner with £1,500,000, leaving one son and six daughters, having made liberal bequests to his widow and to charities, bequeaths nearly a third of the residue to his son. A brewer with over £400,000 to share between four sons and four daughters leaves over three-quarters of the *net* disposable estate to his eldest son. It is fair to say, however, that in this last case, at least, the other children had already been well provided for by settlements during life. Here again, therefore, the absence of knowledge as to gifts *inter vivos* may lead one to wrong conclusions as to the extent of the contrast between the effects of freedom of disposition and the continental law of *legitim*. But there is little doubt that, among the very wealthy, equal division of the spoils among the family, irrespective of place and sex, is not the general rule. More usually one or two sons are found to be specially favoured as regards the inheritance of both capital and business opportunity.

As we get down to the smaller estates, equal division becomes more common, and this clearly for the reason that unequal division would leave some members of the family relatively poor, whereas equal division may just secure a "competence" for each. There are cases, among the smaller estates, where the unmarried daughters are better provided for than the sons who can more easily earn their living. But my general conclusion on this matter, based on an examination of wills in this and the next sample, is that the smaller the estates the com-

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moner is equal division among the children, according to the principles of the *legitim*.

In some eighty-seven cases, it is possible to classify roughly the chief occupations and the social status of the *fathers* of the successors in the first sample. The following is a summary :

TABLE II.—CLASSIFICATION OF FATHERS ACCORDING TO
OCCUPATION AND SOCIAL STATUS

I.	<i>Peerage, Baronetage, and Landed Families</i>	15
	The average estate in this class was £580,000, and half the estates were between £200,000 and under £1,000,000.	
II.	<i>Financiers, Large-scale Manufacturers and Merchants</i>	34
	(Including Textile and Allied Trades 9, Coal 3, Shipping 4, Brewers 4, Foreign and General Merchants 3, Newspaper Owners 2, Bankers 2.)	
	The average estate in this class was £385,000, and half the estates were between £95,000 and £500,000.	
IIA.	<i>Unclassified Gentlemen of Means</i>	5
	The average estate was about £65,000. Three of the estates were between £30,000 and £50,000, and one was over £200,000.	
III.	<i>Professions</i> (including 3 clergy and 3 doctors)	6
	Two of the clergymen had estates of over £400,000. The other estates were relatively small—£1,000, £4,000, £28,000, and one unknown.	
IV.	<i>Small-scale Manufacturers, Wholesale and Retail Shopkeepers</i>	18
	(Including 4 Grocers and Wine Merchants, 3 Drapers, 2 small Cotton Mill Owners, 5 other small-scale Manufacturers (cork, collars, bricks, soap, etc.), 1 Ironmonger, 1 Chemist, 1 Innkeeper, 1 Hairdresser.) At least two fathers in this class had sprung from the ranks of manual labourers. The average estate (of fifteen cases)	

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is about £8,000, but only six estates were ascertained to be over £5,000, and five were under £500.

V. <i>Farmers</i>	2
The only estate found was £2,200 personalty.	
VI. <i>Clerks and Minor Officials</i>	3
1 Stockbroker's Clerk, 1 Railway Policeman, 1 Ship-measuring Surveyor (£680).	
VII. <i>Manual Working Class</i>	4 ¹
1 Anchor-smith, 1 Weaver, 1 Paper-mill Worker, 1 Carpenter (?).	
Total	87

The above classification is bound to be arbitrary in some respects, and does not cover the whole of the sample. But it is clear that about *one in six* of the fathers belonged to the aristocracy and landed gentry, *one-half* to the upper middle and professional classes (Classes II, IIA, and III above), about *one-quarter* were small-scale capitalists and tradesmen (Classes IV and V), and not more than one-tenth at most were in the manual working class.² In all, about two-thirds of the sons may be said to have belonged to the same social class as their fathers.

SECOND SAMPLE—SUCCESSORS' ESTATES BETWEEN £10,000 NET PERSONALTY AND £200,000 GROSS (UNSETTLED)

§ 10. The composition of the second sample has already been explained. The results, as regards the predecessors' es-

¹ I have included here one that is uncertain. It was a very uncommon surname, and the only birth entry recorded gave the father as a carpenter, but the son's Christian name was different though somewhat similar to the one mentioned in the probate ("Noah" as against "Nathaniel"). The son, described as a "surveyor," seems to have built up a fortune of £210,000 in a total life of forty-four years!

² I have previously remarked that, owing to the omission from the sample of persons whose property is chiefly *settled*, the landed classes and those living purely on independent means are likely to be under-represented.

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tates and the inheritances of the successors, are arrived at in exactly the same way as in the first sample and are presented in a similar manner. The remarks made in connection with the first sample as to the meaning and limitation of the figures therefore apply in this case also. This sample includes a wide range of estates ranging from moderate middle-class fortunes to really large properties, and it is therefore split up into three sections—namely, successors with between £50,000 and £200,000, those with £25,000 to £50,000, and those with £10,000 (net personalty) to £25,000; and the results for each section are compared. The women's estates in the sample are dealt with separately, as they were selected in a different manner from the men's (see above, p. 152), and would in any case be under-represented, owing to the exclusion of settled property from the probate values. The following table (Table III) classifies the men successors in each of the three classes, according to the amounts left by their predecessors. (I should add that in eighty out of eighty-five cases, the father is taken as the "predecessor," in three cases the uncle, in one the wife, and in one the father-in-law.) The Table gives also the aggregate value of the successors' and predecessors' estates. Both totals are confined to property passing under will or intestacy, except that a relatively small amount of settled land is included in the estimated realty of the predecessors.¹ As in the case of the first sample, the figures for the portions of the predecessors' estates bequeathed to those in the sample are subject to a considerable margin of error, but such bequests represent, in any case, only a fraction of their total inherited property.

This sample is more unsatisfactory to deal with than the first,

¹ Estimates of realty were made in the case of twenty predecessors of the male successors, and four predecessors of the women in the sample. The totals included in the aggregate of the predecessors' estates were £342,000 and £300,000 respectively. Land which was clearly not within the disposition of either predecessor or heir was *not* included, and one large landed estate worth about £300,000 was omitted for this reason. The settled land included in the total of the predecessor's property is not likely to amount to more than 5% of that total.

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both because the proportion of predecessors whose estates were not identified is higher than before (viz. 20 per cent. in the case of male successors as against 11 per cent.), and because there is no means of estimating the number of men's or women's estates excluded from the sample, owing to the omission of settled property. As regards the predecessors, whose estates were not found, one cannot assume that they all had nothing to leave, since in sixteen out of twenty-two cases their Christian names were not known, and only in one case was the year of death known, so that it was, in the majority of such cases, impossible to identify their estates in the Probate Registry. The probability is, however, that the majority left relatively small estates, under, say, £5,000. At any rate, the total with which the *large* estates of predecessors should be compared is the total of found and unfound estates, rather than the total of found estates only—always remembering that the number of persons with large settlements not coming into the sample may well exceed the number of unfound cases.

We find, then, that about *half* the predecessors had left more than £30,000, in the case of sons with between £50,000 and £200,000; more than £10,000, in the case of sons leaving £25,000 to £50,000; and more than about £4,000, in the case of sons leaving £10,000 to £25,000. *One-quarter* of the predecessors in each of the three sections left over £77,000, £36,000, and £14,000 respectively. These estimates are based on the assumption that all undiscovered predecessors left less than £5,000. On the same assumption, *four in ten* fathers of sons in the first class, *nine in twenty* fathers of those in the second class, and *eleven in twenty* fathers of those in the third class left estates of less than £5,000. Here again, as in the first sample, the inclusion of settled estates and gifts *inter vivos* would certainly reduce the proportions of relatively small estates. But taking the sample as it stands, about *one-third* of the sons in each class might fairly be described as "self-made men."

In the case of the sixteen women successors, two left unsettled property in excess of £50,000, four between £25,000 and

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TABLE III (A)

SAMPLE OF SUCCESSORS' ESTATES (£10,000 TO £200,000)

Amount of Predecessor's Estate. (Gross value passing under will or intestacy.) (a)	Men Successors with Estates.			All Men Successors £10,000 net pers'ty to £200,000 gross.
	£50,000 to £200,000.	£25,000 to £50,000.	£10,000 net pers'ty to £25,000.	
Over £100,000 . . .	5	1	1(b)	7(b)
£50,000-100,000 . . .	7	4(c)	2	13(c)
£25,000-50,000 . . .	3	5	7	15
£10,000-25,000 . . .	1	3	6	10(d)
£5,000-10,000 . . .	1	3	5	9(e)
£1,000-5,000 . . .	2	2	7	11(f)
£0-1,000 . . .	5(g)	6(h)	10(i)	21(k)
Total known (or estim- ated).	24	24	38	86
Predecessor's estate not known	5	5	12	22
Total in Sample . . .	29	29	50	108
	£000s.	£000s.	£000s.	£000s.
Aggregate value of suc- cessors' estates . . .	3,110.8	1,108.3	880.9	5,100.0
Do. where predeces- sors' estates known . .	(2,591.9)	(925.8)	(663.9)	3,974.0
Aggregate value of pre- decessors' estates . .	1,265	693.6	562.6	2,521
Proportion of predeces- sors' estates bequeathed to successors (rough es- timate)	% 40	% 33	% 35	% 37
Ratio of these bequests to successors' estates (l) (rough estimates):				
(i) Where predecessors' estates known	[20]	[25]	[30]	[23]
(ii) Assuming unfound predecessors' estates to be all under £5,000	[17]	[21]	[24]	[19]

(a) But including settled land in certain cases (see text).

(b) This estate included about £300,000 worth of settled land not within disposition of heir. This is not included in aggregate value of predecessors' estates.

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£50,000, and ten between £10,000 and £25,000. Eight were widows, and in every case the husband left over £10,000 unsettled estate, in six cases over £20,000, and in five cases over £50,000. In the case of seven spinsters and one married woman, the fathers left over £20,000 in six cases, and over £50,000 in four cases. The aggregate value of the sixteen women's unsettled property was £546,000, and the aggregate unsettled estate of their fathers or husbands was £3,800,000. Bequests from the latter source seem to have amounted to well over £800,000; this total excludes incomes for life and, of course, bequests from other sources, but it includes a certain amount of property settled by will which would not appear in the probate values of the women's estates. The high proportion of settled property held by women clearly makes a comparison of bequests with probate values very misleading in this case. But it may safely be said that marriage and inheritance were by far the most important factors determining the property of all the women whose estates came into my investigation; and common observation suggests the same conclusion with regard to women property owners generally.

As regards the proportion of the predecessors' property bequeathed to the *male* successors—on the basis of an admittedly inadequate examination of seventy-five wills and letters of administration, I put this proportion at 40 per cent. in the case of sons with £50,000 to £200,000, and 33 per cent. in the case of sons with £10,000 to £50,000. The estimated proportion in the case of sons with over £500,000 was 56 per cent., and for sons

Notes to Table III (A)—continued

(c) In one case the will states that the son was provided for largely out of *marriage settlement* not included in probate value.

(d) In two cases, the will mentions settlements under which children have benefited. In one of these cases the marriage settlement was £10,000, and testator mentioned that he had divided up most of his property before death.

(e) Marriage settlements mentioned in will, but not included in two cases.

(f) Marriage settlements mentioned in will, but not included in two cases. The inclusion of these settlements (£5,000, and £15,000) would have raised these estates into the £5,000–£10,000 and £10,000–£25,000 classes.

(g) Includes two estates not found but estimated at under £1,000.

(h) Includes two estates not found but estimated at under £1,000.

(i) Includes four estates not found but estimated at under £1,000.

(k) Includes eight estates not found but estimated at under £1,000.

(l) See remarks in text. Estimates of bequests confined to those under will or intestacy of one predecessor only in each case.

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TABLE III (B)
WOMEN SUCCESSORS. ESTATES £10,000 TO £200,000

Amount of Predecessors' Estates, excluding all Settled property.	Women Successors with Estates.			All Women Successors with £10,000 up to £200,000 gross.
	£50,000 to £200,000.	£25,000 to £50,000.	£10,000 net pers'lty to £25,000.	
Over £100,000 . . .	2 <i>w</i>	2 (<i>s</i> & <i>w</i>)	3 (2 <i>w</i> & 1 <i>s</i>)	7
£50,000-100,000 . . .	—	1 <i>s</i>	1 <i>m</i>	2
£25,000-50,000 . . .	—	1 <i>s</i>	—	1
£10,000-25,000 . . .	—	—	4 (3 <i>w</i> & 1 <i>s</i>)	4
£5,000-10,000 . . .	—	—	1 <i>s</i> *	1*
£1,000-5,000 . . .	—	—	1 <i>s</i> †	1†
Under £1,000 . . .	—	—	—	—
Total in Sample . . .	2	4	10	16‡
Aggregate value of Women's Estates (excluding Settled Property) . . .	246,200	128,200	172,000	546,400
Aggregate value of Husbands' or Fathers' Estates (excluding Settled Property) . . .	2,461,900	802,500	557,100	3,821,500

w = widow. *m* = married. *s* = spinster.

* Mother's estate £7,500 personalty.

† Father's estate personalty only; real estate existed but not found.

‡ Eight widows, one married, seven spinsters.

with £200,000 to £500,000, 42 per cent. These percentages are all subject to a wide margin of error, but the decline in the proportion as we get down to the smaller estates is clearly marked, and may be taken as evidence that equal division between the family is more common among those with moderate and small fortunes than among the very wealthy.

The average number of surviving children benefiting under their fathers' wills was nearly the same as in the previous sample—namely, forty-five per ten families (rather more than twenty-four sons and twenty daughters—[average of sixty-eight cases]).

§ 11. The following table (Table IV)¹ classifies fathers and sons according to occupation and social status, the method of

¹ See page 174.

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classification being much the same as in Table II relating to the first sample. Again the classification is bound to be arbitrary in certain cases, as, for example, in the distinction between large- and small-scale manufacturers and traders. The Table is self-explanatory and little need be said by way of comment. Of the ninety-three sons leaving between £10,000 and £200,000, some seventy-five or about *four-fifths* have been classified as belonging to the gentry, professional, and upper-middle classes; and about *three-fifths* of the *fathers* of the latter (fifty-two out of seventy-five) belonged to the same social class as their sons. Eleven out of ninety-three fathers were artisans or labourers (i.e. "working-men") at the time of their sons' birth, but, of these, two later became small property owners. One would naturally expect that the proportion of sons springing from the "working class" would be higher in the case of those with the more modest estates; and this is brought out clearly by the figures given in this Table, and in Table II relating to our first sample. Of sons leaving over £200,000 about *one in twenty* had working-class fathers, the proportion was *one in thirteen* in the case of sons leaving £50,000 to £200,000, *one in nine* of those leaving £25,000 to £50,000, and *one in seven* of those leaving £10,000 to £25,000. These figures are significant, but they hardly support Mr. Keynes' statement—made with reference to the pre-war epoch, when *nouveaux riches* were less common than to-day—that "for any man of capacity and character at all above the average" escape was possible from the ranks of the proletariat into the middle and upper classes.¹ The figures for our sample suggest that not one in a thousand of the sons of working men (or wage earners) ever accumulates as much as £10,000.²

§ 12. I have analysed the occupations of sixty-two men included in our two samples, whose estates, as valued for probate, were more than ten times as large as those of their fathers. The results, for what they are worth, are given in Table V.³

¹ *Economic Consequences of the Peace*, p. 9.

² Perhaps 1 in 100 leaves £1,000 and over.

³ Page 176.

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TABLE IV
OCCUPATION AND STATUS OF FATHERS AND SONS
(SECOND SAMPLE)

Occupation.	Where Successors left £50,000 to £200,000.		Successors leaving £25,000 to £50,000.		Successors leaving £10,000 to £25,000.		Successors leaving £10,000 to £200,000.	
	Sons.	Fathers.	Sons.	Fathers.	Sons.	Fathers.	Sons.	Fathers.
(1) Landed Gentry and Titled Persons .	2	5	1	2	1	1	4	8
(2) Professions .	5	-	8	3	13	12	26	15
(3) Unclassified Gentlemen of Means .	-	1	2	4	3	1(b)	6	6
(4) Bankers, Stock-brokers,*and large-scale Manufacturers and Traders .	20	12	9	5	10	6	39	23
(5) Shopkeepers and small-scale* Manufacturers, etc. .	-	5	5	9(a)	12	10(b)	17	24
(6) Farmers .	-	1	1	1	1	3(c)	2	5
(7) Clerks, Salesmen, Commercial Travellers etc. .	-	1	-	-	-	2(e)	-	3
(8) Artisans, Labourers —"Working-class"	-	2	-	2(d)	-	5(f)	-	9(g)
Tota included. .	27	27	26	26	40	40	93	93
(Not known) .	(2)		(3)		(10)		(15)	
Total in Sample .	29	29	29	29	50	50	108	108

* Obviously there is no clear dividing line between these two classes (4) and (5). In making the distinction, I have taken into account nature of business and size of fortune left.

(a) Includes one father who was a workman at time of son's birth, and became innkeeper.

(b) Includes two fathers who were commercial clerks at time of son's births.

(c) Includes one father who was agricultural labourer and became farmer.

(d) Not counting one who was workman and became innkeeper. See (a).

(e) Not counting two who were commercial clerks. See (b).

(f) Not counting one who was labourer. See (c).

(g) Eleven were workmen at time of sons' births, including three agricultural labourers, one gardener, one coal-miner, one anchor-smith,

Nothing of great importance, however, can be gathered from such analysis, both because the sample is too small to be necessarily representative, and because the description of a man's occupation is not necessarily a good or clear indication of the

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ways in which he made his money. But two points of interest stand out, *first*, that with three exceptions commerce and industry, rather than the professions, were the sources of these men's fortunes, and *secondly*, that those engaged in finance, marketing, and transport (thirty-four in all) considerably outnumber those engaged in actual manufacture and production (twenty-three).¹ At least two of the latter owed the nucleus of their fortunes to the invention of new processes, but it seems that in the large majority of cases the fortunes were founded on a series of wise or lucky anticipations of demand, rather than on permanent contributions to industry, science, or art. In general, it is evident from theoretical considerations that big fortunes are most likely to be made in those lines of business which are the most speculative and in which there is the highest proportion of failures. Among these one may include professions such as law, literature, and art, where the average man makes little or nothing, but exceptional talent can achieve large rewards. Few trades and industries can be singled out as being in the nature of things particularly speculative and insecure, and for this reason an analysis of the occupations of "self-made" men is by itself of limited interest and utility. Most businesses are speculative or not speculative according to the way in which they are managed. Clear examples in our samples of fortunes founded primarily on speculation are those of the six stockbrokers, and of one described as "coal-owner" whose most sensational fortune began with a speculation in colliery pit sinking.

It is obvious, indeed, that mere "thrift" never made a poor man rich. And for "industry" to prove a philosopher's stone, it must take great risks and be combined with exceptional luck or exceptional talent. Both industry and thrift are certainly necessary qualities for the accumulator of property, but they are not in themselves the chief source of great fortunes.

¹ The distinction between production and marketing is often, of course, not clear, for many manufacturers have their own whole-sale and retail distributors, and most large-scale producers perform themselves some of the functions of the middleman.

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TABLE V
OCCUPATIONS OF "SELF-MADE" MEN *
(IN THE TWO SAMPLES OF ESTATES OVER £10,000 NET PERSONALTY)

<i>Food, Drink, Groceries</i>		13
Dealers in provisions, groceries, and agricultural produce	6	
Wine merchants	3	
Cocoa manufacturers	1	
Soap manufacturers	2	
Farmer	1	
<i>Clothing, Textiles, Household Requisites</i>		14
Drapers, Hosiery, Furriers	5	
Boot and Shoe manufacturers	1	
Collar manufacturers	1	
Textile manufacturers	5	
Wallpaper dealers	1	
Cork manufacturers	1	
<i>Coal, Iron, and Engineering, Building</i>		10
Coal owners	3	
Iron-works	1	
Engineers (General, Marine, and Gas)	4	
Builders and Contractors	2	
<i>Chemicals</i>		2
Merchants	1	
Manufacturers	1	
<i>Other Manufacturers</i>		2
Asbestos	1	
Paper	1	
<i>Other Merchants, and Transport</i>		7
Foreign Merchants and Shippers	3	
Stationers and Paper dealers	1	
General and Unclassified merchants	3	
<i>Printing and Publishing, Newspapers</i>		3
Printers and Publishers	2	
Newspaper Owner	1	
<i>Finance and Investment</i>		8
Stockbrokers and Financiers	6	
Foreign Investment and Development	1	
Pawnbrokers	1	
<i>Professions</i>		3
Surveyor	1	
Doctor	1	
Solicitor	1	
Total		62
Of which Production and Manufacture	25	
Marketing and Transport	26	
Finance	8	
Professions	3	
Total	62	

* All those are included whose fathers' estates were less than one-tenth of the value of the sons' estates. Thirty-two were in the *first* Sample (over £200,000), and thirty in the *second* (£10,000 to £200,000).

No poor man who sticks—as the large majority must, who have family responsibilities—to the securer forms of employment for his labour and savings, can hope to leave much

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property to his descendants, however great his talents and energy, however miserly his thrift.

§ 13. The hereditary character of the inequality of property, and the fact that the larger fortunes belong in the main to those who received the larger inheritances, is clearly indicated by the following table (Table VI). Lumping together the two samples investigated, the *male* successors are divided into six classes, according to the size of their estates, as shown in the Table. The correlation between predecessors' and successors' estates is now apparent. For example, while the *average* estate of the sons leaving over £300,000 is six and a half times as large as that of sons leaving £50,000 to £200,000, and thirty-seven times as large as that of sons leaving £10,000 to £25,000, the average estate of their fathers (or other predecessors) is between six and seven times that of fathers of those in the second class (Class 4 in Table), and between twenty-three and twenty-seven times that in the last class (Class 6 in Table). Comparing the same three classes, the ratio of the *median*¹ estate of the *successors* in the richest class to that in the second and third classes is about five to one, and twenty-seven to one respectively; the corresponding ratios for their predecessors' estates are about two and a half to one, and seventeen to one.

According to my rough estimates of the portions of the predecessors' estates bequeathed to the successors in the sample, sons with over £300,000 inherited, on the average, eight or nine times as much as those with estates between £50,000 and £200,000, and thirty to forty times as much as those in the £10,000 to £25,000 class.

As regards the proportions of their property derived from inheritance, for reasons which I have previously given, nothing definite can be gleaned from my figures. But the latter suggest that there is no very marked difference between the pro-

¹ The *median* estate is the one that is exactly half-way down the scale, i.e. half the estates lie above and half below the median. The median in the case of the predecessors' estates is only very approximate.

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TABLE VI
CORRELATION OF PREDECESSORS' AND SUCCESSORS' ESTATES
MEN SUCCESSORS ONLY, LEAVING

	(1) Over £500,000.	(2) £300,000 to £500,000.	(3) £200,000 to £300,000.	(4) £50,000 to £200,000.	(5) £25,000 to £50,000.	(6) 0 to £25,000.
Number in Sample Predecessors' estates known . . .	20 19	24 22	49 42	29 24	29 24	50 38
AVERAGE estate of successors . . .	£ 980,000	£ 386,000	£ 240,000	£ 107,000	£ 38,200	£ 17,600
Do. of predecessors . . .	657,000 430,000	257,000 338,000	203,000	53,000	29,000	14,800
(Do. do. assuming all un- found estates to be under £5,000) . . .	(410,000) (315,000)	(236,000) (315,000)	(175,000)	(44,000)	(24,000)	(11,600)
MEDIAN estate of successors . . .	486,000 90,000 (70,000)		239,000 60,000 (40,000)	92,000 44,000 (27,000)	32,000 13,000 (7,000)	17,700 6,500 (4,000)
One-quarter of predecessors left unsettled estate over . . . (including unfound cases as below that figure) . . .	850,000 540,000	310,000 540,000	186,000	77,000	36,000	14,400
Average proportion of pre- decessors' estate bequeathed to successor . . .	% 56	% 43	% 41	% 40	% 33	% 35

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portions inherited by those in the different classes included in the two samples. This conclusion cannot, however, be accepted without more definite evidence from other sources. But, if true, it indicates that, though it is physically possible for those with very large fortunes to save a larger proportion of the income from them, this factor is counterbalanced by the greater *incentive* to earn and accumulate on the part of those with more modest inheritances.

The following rough and ready classification is suggested by the results of our investigation—that, of the *men* in the upper and middle classes at the present day, about one-third owe their fortunes almost entirely to inheritance (including gifts *inter vivos*), another third to a combination of ability and luck with a considerable inheritance of wealth and business opportunity, and the remaining third largely to their own activities. Some in the second category—but none in the first—might be entitled to say, in the manner of Themistocles to the Seriphos islander, “If you had had my inheritance and I had yours, neither of us would have been wealthy.” Many in the third category, though receiving little or no actual property by inheritance or gift, had received a superior education or relatively expensive training.

As regards the *women*, who now hold 25 to 30 per cent. of the property in these classes, it is probable that nearly all their fortunes are due to inheritance and marriage, augmented, no doubt, to some extent by saving out of the income from those sources.

The evidence of the two samples investigated supports the opinion that, in the great majority of cases, the large fortunes of one generation belong to the children of those who possessed the large fortunes of the preceding generation. Even after the windfalls of the War inflation-period, the rich men who have sprung from parents with insignificant resources are almost certainly a minority of their class. The attention which that minority attracts seems to be due to the fact that those who compose it are exceptional phenomena rather than numerous. It is obviously difficult, and it would appear to be

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comparatively rare, for a poor man to acquire much property by his own enterprise and saving within the limited period of his working life. Still rarer is it for a poor woman to do so—unless a fortunate marriage be⁴ counted as the result of “enterprise” in the economic sense. On the other hand, it is obviously not difficult, and it would appear to be common, for the recipients of large inheritances not only to maintain them intact, but to enlarge them, particularly when those inheritances bring with them opportunities for securing large earnings as well as interest.

There is no doubt that, in the course of a few generations, the institution of inheritance has frequently enabled a reasonably thrifty and industrious family to turn a small original capital into a large fortune. But within the space of one generation the shifting from class to class is normally not great. Our sample investigation did not go back more than one generation. Had it done so, we should probably have found that the proportion of *grandfathers* with little or no property was rather larger than that of the fathers, that of great-grandfathers still larger, and so on. Go back a hundred years or so, and there is little doubt that a considerable proportion of the ancestors of rich men living to-day would be found to have been comparatively poor. But, since poor men are far more numerous than rich, it is equally demonstrable and certain that, in the first place, only a tiny percentage of poor men living to-day would be found to have had well-to-do ancestors, and, secondly, that the descendants of the large majority of poor men remain poor throughout the generations.

§ 14. The economic history of representative middle-class families would be an interesting and profitable study; and the genealogist could be of considerable use to the economic historian. In the case of my own family—where the genealogy of the more obscure and less fortunate branches has been investigated, and particulars of some 250 wills and letters of administration granted to members of the family have been recorded—I have been able to trace the fortunes of the different branches of the descendants of one ancestor through *ten*

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generations.¹ This is one of many families which became prominent about the time of the Industrial Revolution, and it is fairly certain that the part played in its history by the luck of inheritance and marriage is not exceptional in its importance. The following brief review of its social and economic history may, therefore, have significant features of general interest.

At the opening of the seventeenth century the younger son of a bankrupt freeholder married the heiress of a small land-owner in the district now known as the Five Towns. There were three sons of the marriage, whose descendants are living at the present day. The fortunes of the descendants of these three sons have been radically different. The eldest of the three sons, and his descendants in the third and fourth generations, inherited the bulk of the estates of his mother's family, about 240 acres in all, including a small pottery. The descendants of the youngest son (No. 3 branch) during the next three generations also acquired a considerable amount of property by marriage and inheritance. Indeed, in the third generation this was the most important and the most able branch of the family; it contained at least three prosperous potters and good business men who augmented their patrimony by marrying well and by buying up real estate in the neighbourhood. One was a coal- and land-owner on a considerable scale. But, in the next generation No. 3 branch fades into obscurity owing to a series of unlucky accidents. All the sons of the two wealthiest members died unmarried; the heiress of one married into No. 1 branch; and the bulk of the property of the others passed outside the family to relatives by marriage. Another member lost all his money in an unsuccessful pottery venture; while the eldest member of the branch contracted an unfortunate alliance. The descendants of the second of the three sons (No. 2 branch) were less fortunate in the way of marriage and inheritance, and possessed originally perhaps less ability than the other two branches. One grandson migrated in the

¹ Col. J. C. Wedgwood, *History of the Wedgwood Family, and Wedgwood Pedigrees*.

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early eighteenth century to the coast of Cumberland, where his numerous descendants became working potters, sailors, and coal-miners.

It is in the last quarter of the eighteenth century, at the beginning of the Industrial Revolution, that the division of the present-day descendants of the original yeoman into "capitalists" and "proletarians" may be foreseen. At that time No. 1 branch had inherited a small estate worth about £4,000 or £5,000 and a growing pottery business; while, of the two younger branches, one was shortly to be deprived of the inheritances it expected from its wealthiest members, and the other was already fast joining the ranks of the proletariat.

During the opening stages of the Industrial Revolution the fortunes of one shoot of No. 1 branch were increased substantially by a younger son of exceptional ability. Coming after four generations of yeoman potters, the latter revolutionised what had once been a small-scale rural industry, and succeeded in amassing the then large fortune of about a quarter of a million pounds. In this achievement he was no doubt assisted to some extent by marriage with a cousin endowed with considerable means as well as brains. But it is chiefly to his industry and ability that the most well-to-do section of the family still owes its prosperity. Those of his descendants who have children living at the present day have in each case, during four generations, left estates ranging from £20,000 to £100,000. With one possible exception, none of them dissipated their patrimony, but none greatly increased it.

In another section of the elder branch of the family, the descendants of an eccentric inventor, who himself appeared to have squandered a moderate inheritance, benefited considerably from one of his inventions.

In the final result, of the living descendants of the elder son of the common ancestor, *nine* generations back, 75 per cent. remain in the middle and upper middle classes, having participated in inheritances of over £1,000 from the last generation; and in the case of 45 per cent., the estates were not less than £20,000, and rarely more than £100,000.

FORTUNES OF PARENTS AND CHILDREN

But of the 200 or more descendants of the second and third sons who are living in this country, certainly over 90 per cent. are numbered among the "lower middle class" and the "proletariat." Only one member of these two branches of the family has left an estate in excess of £500.

Thus the fortunes of the different branches were largely pre-determined by the economic position of the different members of the family at least *five* generations back, and to some extent by that of ancestors *nine* generations back.

APPENDIX TO CHAPTER VI

LIST OF PERSONS AND ESTATES (GROSS UNSETTLED) INCLUDED IN SAMPLES (IN ORDER OF SIZE OF ESTATE)

FIRST SAMPLE. ESTATES OVER £200,000

	£		£
Hambro	2,323,710	Wm. Lewis	406,853
Hulton	2,222,471	Cuthbertson	401,533
Salting*	1,868,184	Mardon	399,518
Reddihough	1,653,304	Salomons	388,412
Masham	1,557,600	Nunburnholme	365,327
Knowles	1,084,704	Curzon	354,894
Cain	1,079,800	Everard	348,073
Leverhulme	1,000,000	Tetley	335,299
G. W. Fox†	953,531	Duncombe	334,080
Rutland	930,737	Gillilan†	329,221
Kenyon	696,531	Carr	326,163
Pilkington	688,578	Waugh	322,010
Straker	678,269	Moseley	314,562
Gee	659,700	Harland*	313,006
Bowen†	641,439	McAndrews	310,080
Woolland	635,135	Tillett	303,476
Williams	634,959	Livesey	302,210
Blake	555,751	Illingworth	289,060
Beaufort	541,843	Topham†	285,961
Jackson	540,757	Fraser-Mackintosh*	284,260
Masham*	535,171	Methuen	279,654
Dempster	518,819	Fremlin	279,589
Turner	496,644	Hull	278,140
E. E. Sassoon	488,343	Horsley	274,009
Cooke	484,687	Fieldsend	272,897
Gray	474,027	Ingram	264,715
Nickols	453,039	J. Slater	261,899
Taylor	453,011	Collinge	260,855
Mappin	448,358	Schuster	260,633
B. H. C. Fox	437,550	J. C. Barlow	257,931

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	£		£
Adam	257,808	Charters	225,817
Ellison†	257,758	Brook	225,655
Bridge	257,061	Huggins	223,992
Tillett	252,762	Burness	223,265
R. E. D. Sassoon	252,420	Bridges	221,554
Porritt	251,769	Rowntree	220,336
St. George†	251,678	Sharp	219,528
Atkin	250,433	Hacking	218,893
Doverdale	250,000	G. C. Robertson	217,093
W. L. Davies	248,485	Breskal	213,854
Kelly†	245,147	Thompson	213,353
Pollexfen- Bastard }	244,382	Aron†	212,913
Osborn	238,968	Bright	212,359
Glanfield	233,461	Carrick-Moore*	211,786
Gurteen	230,571	Blyth	211,666
Gold	229,682	Horton	210,857
May	229,324	De Peyer	210,209
Torbock	228,726	Dundonald*	202,800
Boake	227,881	Storey†	202,356
		Middlemore	200,483

* Women.

† Nothing known regarding predecessor's estate.

SECOND SAMPLE

(ESTATES £10,000 NET PERSONALTY TO £200,000 GROSS)

	£		£
Akroyd	197,308	Wedd	65,609
Griffin	188,184	Jolliffe	61,162
Atkin	182,002	Fenwick	60,853
Gustavus†	175,007	J. Barlow†	58,946
Enthoven	170,898	Yates	58,703
Carr†	142,926	Day	56,925
Clay	140,005	White	48,086
Chambers	139,660	Elers	45,862
Boord	133,670	Holmes†	45,754
Amphlett	119,956	Daniell	45,680
Hanley	105,999	Vigo	44,200
Cheesman	101,923	Chichester	43,141
Henderson	98,147	Duncan	42,033
Brightwell	84,839	Bragg†	41,186
Harwood	84,198	Goldring	39,976
Hilton	83,826	Gardner	39,835
Huggan	78,221	Crompton	38,592
Carlsh†	76,367	Seville†	38,292
Garrod	75,364	Bourne	38,239
Doar	69,418	Theobald	37,364
Custance	67,623	O'Neill	32,224
Stevenson†	65,705	Colclough	32,174

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	£		£
Wilson	31,628	Dodwell	18,884
Bellairs	31,328	Cockburn	18,597
Evans†	30,473	Garnett	18,507
Dale	28,421	Kinghorn	18,041
Bates	27,278	Boardman†	17,850
Broadbent†	26,660	Brigstocke†	17,792
Topham	26,455	Cannon	17,675
Gibbons	26,391	Bedford	17,313
Proud	25,950	Driffield	16,986
H. M. Davies	25,897	Lloyd†	16,571
F. Hawke†	25,258	Fry	16,523
Bloomer	25,022	Guise	16,355
Links	25,009	Haslam†	15,899
Grimsdale	24,597	Bullock	15,672
Fuidge	23,354	Clark†	15,554
Davis†	24,131	Griffiths	15,272
R. E. Cooke	23,899	C. Green†	15,041
Hardy	23,491	Fausset	15,014
Huxley	23,026	Anson	14,881
Preston†	22,569	Bates	13,308
Goodwin†	22,208	Colegrave	12,792
Adair	22,036	Harris	12,445
E. Berry†	21,777	Candy	12,366
Clark	21,580	Cheetham†	12,198
McGachen†	21,474	Dillon†	12,077
-----t	21,130	Love	11,525
Miles	20,967	F. L. Hodges	11,459
Le Tall	20,865	Haggard	11,322
Garrett	20,707	H. Clayton	11,306
MacGregor	19,620	Thackrah	11,096
Horsfall	19,523	P. Smith	10,967

† Nothing known regarding predecessor's estate.

Women

	£		£
Mrs. J. M. Churton	139,948	Mrs. M. W. Elgood	18,852
Dame Mirrielees	106,347	Miss M. Van Heythuysen	17,252
Dame M. A. Horlick	45,866	Mrs. Charlotte Y. Corfield	15,355
Miss J. E. Black	27,597	Miss C. M. Belcher	15,311
Miss F. W. Barnard	27,510	Hon. Bertha De Torre	
Miss O. Harrison	27,225	Diaz	14,334
Miss E. Chamberlen	24,357	Lady Constance C. E.	
Hon. Mrs. A. Fitzwilliam	23,413	Russell	13,319
Miss D. L. Gilpin-Brown	19,241	Lady Frances Bushby	10,553

CHAPTER VII

THE DISTRIBUTION OF INHERITED PROPERTY AND SAVINGS

§ 1. THE Estate Duty statistics relating to the distribution of property at different ages throw light indirectly on the influence of inheritance. In recent years the Inland Revenue authorities have published not only the number and value of estates subject to Death Duties, but have also classified them into age-groups, according to the age at death of their possessors. These figures have been employed both by independent authorities and by the Board of Inland Revenue itself to estimate the distribution of property among the living, as well as its aggregate value.¹

They can also be used, as I have used them here, to compare the distribution of property within each age-group, and as between the older and younger sections of the population.

The Estate Duty figures only cover estates of over £100 in value, and this £100 limit would, of course, cut off different proportions of the people at different ages. But the number of estates below £100 (though not their aggregate value) can be estimated in each case, since the total population in each age-group is known, and the number of estates *over* £100 can be estimated.

It is, indeed, desirable to base one's estimates on the average of a number of consecutive years rather than on the figures for a single year. For, in the younger age-groups, where decedents form a relatively small sample of the living, chance variations from year to year in the number and value of the larger estates are not negligible. Again, there are technical discrepancies in the official figures as between the stated numbers and amounts, which only cancel out roughly over a

¹ See Appendix to Chap. I, where the method is described and discussed.

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number of years.¹ It is also desirable to choose a period when property values were fairly stable.

§ 2. Using the average of the figures for the four years 1911-14, and also the average of the figures for the two years 1923-4 and 1924-5, I have constructed a series of curves, showing, both for the pre-war and the post-war periods, the proportions of the people in five different age-groups owning property of different values.² The age-groups chosen start

¹ The figures in the "Numbers" column of the Estate Duty statistics refer in each case to the estates reviewed in the year in question. Before 1919 the figures of *Values* referred to the total values of the estates reviewed in the year, except where the value was only disclosed approximately in the first instance. After 1919 the capital included in the *Values* column is that on which Estate Duty was actually paid, so that where the duty is paid by instalments the capital on which subsequent instalments were paid would be included when they were paid. Thus, neither under the pre-1919 system nor after 1919 do the Estate Duty statistics represent accurately for any one year the capital passing in that year. But, in the official opinion, the lack of strict correspondence in the figures to the facts of the year in question does not seriously affect their comparability. (See 63rd Report of Inland Revenue, p. 18.)

² See Charts I and II at end of chapter.

In the first series of graphs, I have plotted the proportions of the population in each age-group owning estates of so many £ and over, against the values of the estates in question. Both scales are logarithmic so that the graphs are drawn up by a modification of Pareto's method. But here they are convex curves, not straight lines.

In constructing the estimates, the Registrar-General's figures for the death-rates of "Social Class I" 1910-12 have been applied to estates over £100 in the period 1911-14. In the period 1923-5, it has been assumed, in the absence of data, that the death-rates of males in the upper and middle classes bore the same proportions as in 1910-12 to the general death-rates in each age-group. But the reciprocals of the general death-rates for women have been applied to women's estates. The sex of the owner was not distinguished in the 1911-14 figures. The relative age-distribution of the population was assumed to be the same in 1914 as in 1921 (see Appendix to Chap. I). Since making the calculations for the post-war period, the statistics for 1925-6 have been published. I have not done all the calculations over again so as to include the later year in the average; but, in the two age-groups (35-44 and

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with those thirty-five to forty-four years old and end with those seventy-five to eighty-four years old. I should like to have included the twenty-five to thirty-four age-group, but the discrepancies alluded to above made the figures in this case too unreliable.

There are two results which seem to have significance for our purposes—*first* that the curves of distribution at the different ages are almost identical in form, and *second* that the relative inequality of distribution within the *richest tenth* of the population (a section owning about nine-tenths of the aggregate property) is very nearly the same at each age.¹ The 65–74) I found that the inclusion of the 1925–6 figures did not alter materially the results obtained from the average of the previous two years.

¹ For a theoretical discussion of statistical tests of “absolute” and “relative” inequality, see Dalton, Appendix to *Inequality of Incomes*. Certain measures of dispersion for the estates of the *richest tenth* of the population in the different age-groups are as follows (note particularly also the measures of “Skewness” indicating the similarity in plan of the curves of distribution):

Distribution of Property among persons composing richest 10% of population at ages—		Ages 35–44.	Ages 45–54.	Ages 55–64.	Ages 65–74.	Ages 75–84.
<i>Relative Quartile Deviation:</i> $\frac{(q_1 - q_2)}{(q_2 + q_1)}$	1911–14	0.64	0.65	0.66½	0.66	0.65½
	1923–4	0.53	0.59	0.57	0.60	0.62
<i>Relative Mean Deviation from Arith. Mean</i>	1911–14	1.22	1.19	1.24	1.21	1.17
	1923–4	1.16	1.13	1.09	1.08	1.07
<i>Quartile Measure of Skewness:</i> $\frac{(q_2 - m) - (m - q_1)}{(q_2 - m) + (m - q_1)}$	1911–14	0.54½	0.53	0.54	0.58	0.53
	1923–4	0.49	0.48½	0.48	0.51	0.49
<i>Relative Quartile Deviation within section comprising Richest 5% of the population in each age-group</i>	1911–14	0.61	0.59	0.59	0.60	0.58½
	1923–4	0.51	0.52½	0.50½	0.52½	0.52½

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significance of this observation is, perhaps, made more plain when the population in each age-group is divided up into a series of sections or classes, and the minimum and average estates of each section are compared. It is then seen that within the richest tenth of the population, they increase with advancing age in approximately the same ratio. (See Chart III at end of Chapter.) The similarity is still greater within the top twentieth of the people. For example, in the period 1911-14, the minimum estate of the section comprising the richest *thousandth* (0.1 per cent.) of the people aged seventy-five to eighty-four was 6.6 times that of the same section aged thirty-five to forty-four; while the increase was very nearly the same, namely 6.9 times, in the case of the minimum estate of the section comprising the richest *twentieth* (5 per cent.) of the people. The corresponding increase in the case of the same sections between the same ages, in 1924, was 4.65 times¹ and 4.8 times respectively.

§ 3. Of course, these figures apply not to the *same* people at different ages, but to different sections of the same population. Consequently, no valid inferences can be drawn as to the actual rates at which property tends to accumulate with advancing age among different classes of the people. Nevertheless, the similarity of the curves of distribution among the older and younger sections of the population is, I think, suggestive, for the following reason. We know that the same factors are at work determining the distribution of property at different ages in the life of adult individuals. But each of those factors has not an equal importance at different ages. The direct influence of inheritance and gifts in shaping the distribution of property must be greater in the younger than in the older sections of the population. Little property is received by way of inheritance or gift after the age of about fifty-five. In the Probate Registry inquiry, for example, I found that *over nine-tenths* of the estates were inherited before the age of fifty-five, and *two-thirds* between the ages of thirty-

¹ In the case of the richest 0.2%, figures for the richest 0.1% not being available.

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five and fifty-four.¹ Consequently, a higher proportion of the property in the age-groups, say fifty-five to eighty-four, must be due to saving and factors other than inheritance and gifts than is the case at the ages from thirty-five to fifty-four. Hence it is significant that the curves of distribution at the latter ages, when the bulk of gratuitous property is received, should be of the same pattern as the curves of distribution at the older ages, when any increase in estates must be largely due to other factors. It strongly suggests that the *indirect influence of inherited wealth, in determining the extent of one's ability to save, is very considerable*. If this were not the case, and differences in personal characteristics were the chief influence determining the distribution of "saved" property, then one would expect to find the curves of distribution in the older age-groups exhibiting marked differences from those in the younger age-groups. For, as Professor Pigou has said, in his criticism of Pareto's "Law," "inherited property is not distributed in proportion to capacity. . . . There is clear evidence that the physical characters of human beings—and considerable evidence that their mental characters—are distributed on an altogether different plan."²

Another feature of property distribution pointing to the same conclusion is that women's property is distributed in much the same proportions as that belonging to men, although fresh accumulation must account for a much larger proportion of the latter than of the former. In the Appendix to Chapter I, I called attention to this similarity in distribution as regards the property held by the two sexes.³ Relative distribution

¹ My calculations were based mainly on inheritances in the direct line of descent. If all collateral bequests and those between spouses were taken into account, the average age at inheritance would be raised. But, on the other hand, if gifts *inter vivos* were included, the average age of recipients of both gifts and bequests would be lower.

² *Economics of Welfare*, pp. 608 and 609.

³ See figures given in Table IV (c), Appendix to Chap. I. The comparison holds good, in spite of the doubt as to the exact extent of the property held by both sexes in estates of under £100 declared value.

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among women is slightly less uneven than among men, but the difference is not great. For example (in 1924) the richest 1 per cent. of adult men (over twenty-five years of age) are estimated to own 60 per cent. of the aggregate property held by their sex, while the same percentage of adult women own 56 per cent.; the richest 5 per cent. of men hold 81 per cent., and of women 80 per cent.; the richest 10 per cent. of each sex are estimated to hold 87½ per cent.

§ 4. Two other observations may be made on the foregoing figures. In the first place, the estates of all classes within the richest 20 per cent. of the population (comprising the owners of more than nine-tenths of the property), increase in approximately the same ratio up to the age of about sixty; and continue to increase, but at a much slower rate, from the age of sixty on. But the decline in the rate of accumulation at the more advanced ages is much more marked in the case of the poorest classes. According to the post-war figures, there appears to be little accumulation after the ages of fifty-five to sixty-four, so far as the poorest nine-tenths of the people are concerned, and actual *decumulation* among the poorest 80 per cent. But, among the *richest 10 per cent.* the average estate at ages seventy-five to eighty-four was nearly double that at ages fifty-five to sixty-four, in 1913—and 50 per cent. greater in 1924.¹

The reasons, both for the general decline in the rate of accumulation after the age of sixty, and for the greater decline among the poorer classes, are not far to seek. The fact that very little property is inherited after the age of fifty-five or so, and that a man's active working life ceases, in most cases, ten years or so later, and the growing practice among relatively old men of making gifts to the young—these things sufficiently explain the decline as regards the upper and middle classes. And it is evident that, among the poorer and working classes,

¹ The reader must bear in mind the warning given above that these figures relate to different sections of the same population, *not* to the same people at different ages.

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those who have saved while they earned, frequently have to spend their savings in old age.

It may be noticed as an interesting fact—though not pertinent to our present inquiry—that the rate of accumulation of property with advancing age is, throughout all classes, less in the post-war years than in the pre-war period. The cause is to be found probably in the decline in private savings, and in the growth of gifts *inter vivos*.

In the second place, since the property of the poorest nine-tenths of the population increases little or not at all after the age of sixty or so, whereas that of the richer classes increases up to the most advanced age, fresh accumulations appear, on the whole, to be more unequally distributed than inherited wealth. But as regards the better-off classes, forming, say, the richest tenth of the population and owning the bulk of the property, this does not seem to be the case, for, as observed above, within these classes the relative inequality of distribution is much the same in the older as in the younger age-groups. In other words, the inference is that, on the whole, there is no marked difference in the proportion of property derived from inheritance and gift as between large and moderate estates, among owners of the *same age*; but since the owners of the larger estates are on the average rather older than the others and have therefore had more time in which to accumulate, they are likely, from this fact alone, to have inherited a rather smaller proportion of their total capital.

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APPENDIX TO CHAPTER VII

THE DISTRIBUTION OF PROPERTY AT DIFFERENT AGES

(NOTE.—The figures in the following tables are estimates arrived at by interpolation from figures based on the Estate Duty Statistics for the four years 1911-14, and the two years 1923-4 and 1924-5. Obviously there can be no claim to great accuracy.)

TABLE I
AVERAGE ESTATE OF RICHEST TENTH OF THE PEOPLE
AT DIFFERENT AGES

Ages.	1911-14.		1923-5.		Women only 1923-5.	
	£	Index Age (45-54). 100	£	Index Age (45-54). 100	£	Index Age (45-54). 100
25 to 34	(1,050)	29	—	—	—	—
35 to 44	1,930	53	3,400	50	2,010	53
45 to 54	3,610	100	6,880	100	3,790	100
55 to 64	6,580	182	10,500	153	5,860	155
65 to 74	8,420	233	12,700	185	6,750	178
75 to 84	12,300	340	15,200	221	8,570	226
All 35 to 84 years .	£4,350	(120)	£7,300	(106)	£4,100	(108)

TABLE II
MINIMUM ESTATES OF DIFFERENT SECTIONS OF THE
PEOPLE AT DIFFERENT AGES. (a) ENGLAND, 1911-14

The Richest Percentage of the People at Ages :	25 to 34 years.	35 to 44 years.	45 to 54 years.	55 to 64 years.	65 to 74 years.	75 to 84 years.
Own Estates in Excess of :—	£	£	£	£	£	£
Richest 0.1 % (1 in 1,000)	14,100 (32)	21,400 (49)	43,700 (100)	69,000 (158)	100,000 (229)	141,000 (323)
„ 0.2 % (1 in 500)	7,240 (28)	12,800 (49)	26,200 (100)	41,000 (156)	57,800 (220)	82,000 (312)
„ 0.5 % (1 in 200)	2,510 (21)	6,000 (51)	11,750 (100)	19,000 (162)	26,300 (224)	37,100 (316)
„ 1 % (1 in 100) .	1,090 (18)	2,950 (49)	6,020 (100)	9,550 (158)	12,900 (214)	19,000 (316)
„ 2 % (1 in 50) .	480 (18)	1,290 (48)	2,680 (100)	4,350 (162)	6,020 (224)	8,900 (332)
„ 5 % (1 in 20) .	156 (20)	380 (48)	796 (100)	1,260 (158)	1,700 (214)	2,630 (331)
„ 10 % (1 in 10) .	— (—)	134 (52)	255 (100)	415 (162)	550 (215)	800 (313)

N.B.—The italic figures in brackets under the age of each group show the proportionate increase with advancing age based on the number of estates at ages 45 to 54 being taken as 100.

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TABLE II
(b) ENGLAND, 1923-5

The Richest Percentage of the People at Ages :	35 to 44 years.	45 to 54 years.	55 to 64 years.	65 to 74 years.	75 to 84 years.
Own Estates in Excess of :—	£	£	£	£	£
Richest 0·2 (1 in 500) . . .	18,300 (50)	36,600 (100)	54,700 (149)	69,000 (189)	85,000 (232)
„ 0·5 % (1 in 200) . . .	8,400 (48)	17,500 (100)	26,600 (151)	33,900 (193)	41,700 (237)
„ 1 % (1 in 100) . . .	4,270 (44)	9,770 (100)	14,800 (151)	19,000 (193)	22,700 (231)
„ 2 % (1 in 50) . . .	2,140 (43)	4,970 (100)	7,800 (157)	9,500 (192)	11,500 (232)
„ 5 % (1 in 20) . . .	830 (48)	1,740 (100)	2,820 (162)	3,310 (190)	3,980 (229)
„ 10 % (1 in 10) . . .	350 (56)	630 (100)	1,100 (175)	1,260 (201)	1,380 (221)
„ 20 % (1 in 5) . . .	100 (56)	180 (100)	320 (178)	325 (195)	325 (180)
„ 25 % (1 in 4) . . .	— (56)	110 (100)	200 (182)	195 (177)	170 (154)
				approx. (130)	approx. (180)
				approx. (177)	approx. (154)

TABLE III
AVERAGE ESTATES OF DIFFERENT CLASSES OF THE PEOPLE AT DIFFERENT AGES

(a) ENGLAND, 1911-14

Section of the People at Ages :	25 to 34 years.	35 to 44 years.	45 to 54 years.	55 to 64 years.	65 to 74 years.	75 to 84 years.
	£	£	£	£	£	£
Richest 10 % { Richest 0·1 % *	(48,700)	(63,900)	(105,000)	(251,000)	(273,000)	(386,000)
Next 0·1 % . . .	10,100 (28)	17,850 (49)	36,200 (100)	56,000 (155)	84,100 (232)	113,000 (312)
Next 0·3 % . . .	4,720 (25)	9,800 (53)	18,500 (100)	29,000 (157)	38,900 (210)	60,500 (328)
Next 0·5 % . . .	1,865 (21)	4,530 (50)	9,100 (100)	14,250 (157)	20,100 (221)	28,100 (309)
Next 1 % . . .	760 (17)	2,190 (50)	4,380 (100)	7,140 (163)	10,000 (228)	14,700 (335)
Next 3 % . . .	300 (18)	823 (60)	1,650 (100)	2,590 (157)	3,680 (223)	5,580 (338)
Next 5 % . . .	[130]	256	502	851	1,120	1,800
	(26)	(51)	(100)	(169)	(224)	approx. (360)

* Owing to the fact that estates at top of scale are relatively few and that one or two "fluke" estates passing at death have a considerable effect on the average, the figures of average estates of the richest class distinguished, particularly in the younger age-groups, are not as reliable as the others.

DISTRIBUTION OF INHERITED PROPERTY

(b) ENGLAND, 1923-5

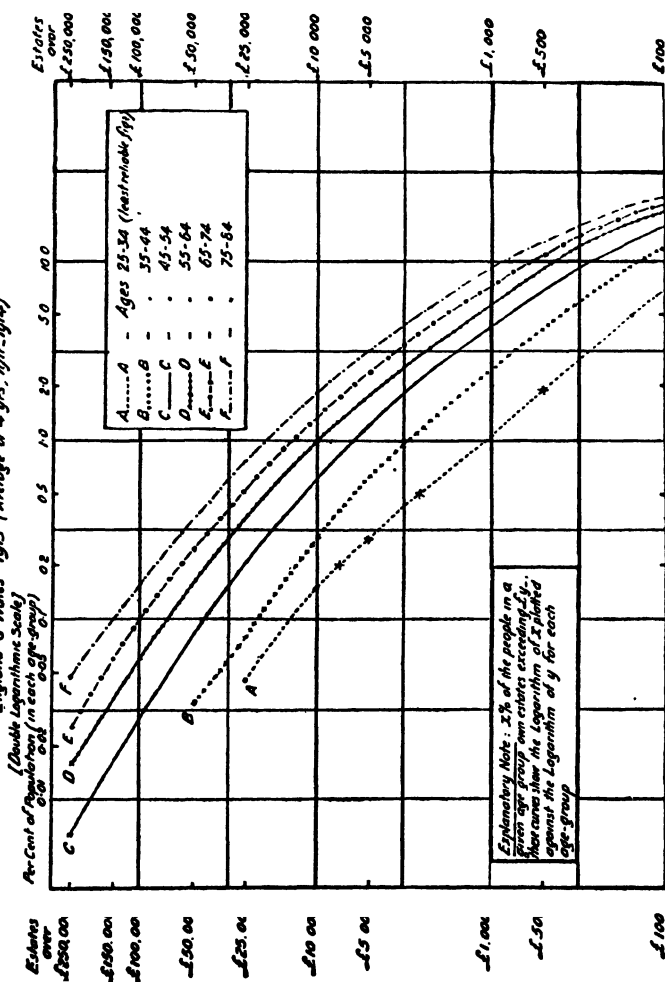
Section of the People at Ages :		25 to 34 years.*	35 to 44 years.	45 to 54 years.	55 to 64 years.	65 to 74 years.	75 to 84 years.
Richest 10%	Richest 0.2 %	£ [26,000] (19)	£ 76,500 (55)	£ 140,500 (100)	£ 205,000 (146)	£ 229,000 (163)	£ 272,000 (194)
	Next 0.3 %	[5,700] (20)	14,250 (50)	28,800 (100)	45,200 (157)	56,800 (197)	68,000 (236)
	Next 0.5 %	[2,640] (17)	6,770 (44)	15,450 (100)	24,400 (158)	31,200 (201)	35,300 (228)
	Next 1.0 %	[1,320] (16)	3,510 (43)	8,190 (100)	12,600 (154)	16,100 (197)	19,700 (240)
	Next 3 %	[626] (19)	1,570 (49)	3,240 (100)	5,330 (165)	6,890 (212)	8,550 (265)
	Next 5 %	[256] (20)	568 (45)	1,260 (100)	2,080 (165)	2,380 (188)	2,910 (231)
	Next 10 %†	[119] (27)	249 (57)	440 (100)	760 approx. (172)	720 approx. (163)	820 approx. (187)

* The figures for age-group 25 to 34 are not reliable, as estates left by the dying in this case in *two* years are too few to be a sufficient basis for a satisfactory estimate.

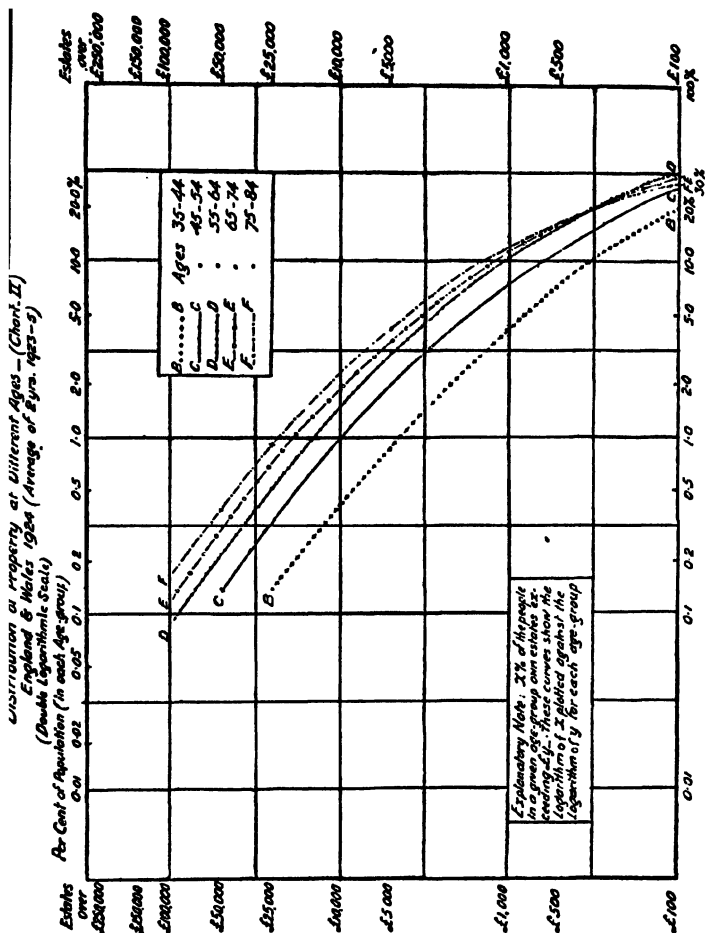
† The figures for this class are only very approximate. The increase in estate from 65-74 to 75-84 is probably due to the fact that it is chiefly the wealthier persons in this class who live beyond 75.

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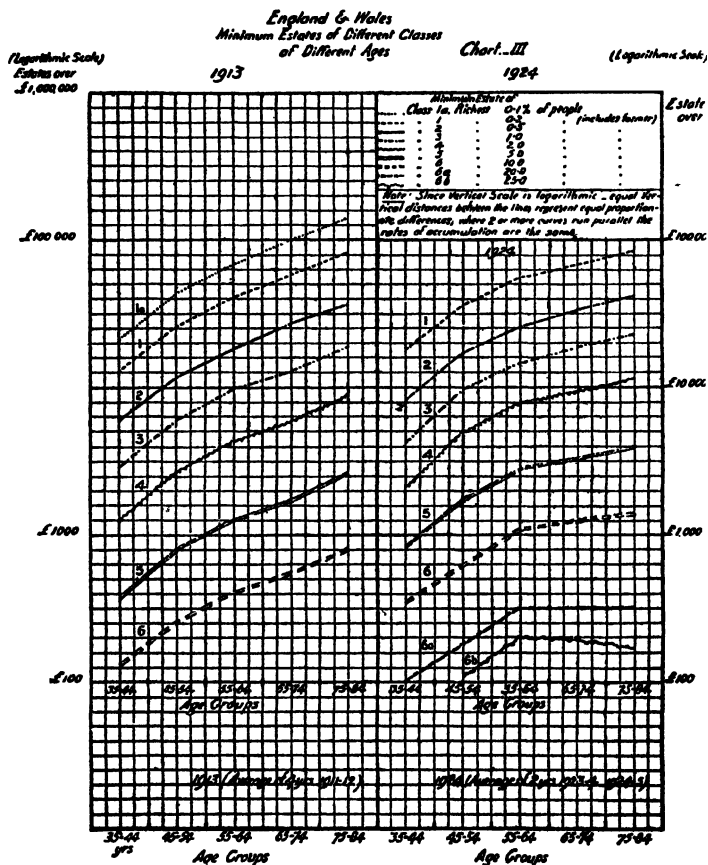
*Distribution of Property at Different Ages — Chart I
England & Wales 1913 (Average of 4 yrs, 1911-1914)*



DISTRIBUTION OF INHERITED PROPERTY



THE ECONOMICS OF INHERITANCE



PART II

CHAPTER VIII

THE JUSTIFICATION OF INHERITANCE

§ 1. In the last three chapters, we examined the available evidence regarding the degree to which hereditary inequality of property persists in Britain to-day. Though the statistical material is scanty, it is at least clear that, in spite of the economic and social upheavals of the past decade, unequal inheritances remain a most important factor in shaping the distribution of wealth.

Looking backwards to earlier times, it seems difficult to over-estimate the influence of a system of inheritance on the history of social classes. In the feudal ages inequalities of wealth were produced and maintained by laws which enforced the subordination of the majority class to an aristocracy of priests and nobles. Within that system of law and custom, a man's economic and social status was definitely hereditary and fixed. The abolition of serfdom, and the growth of personal freedom and political democracy, has weakened but not abolished hereditary class divisions. For the legal right of bequest and inheritance of the non-human sources of wealth remained and has proved effective in maintaining a hereditary concentration of property. When villeinage ceased in Britain, it was not without full compensation to the lords of the manor, in the form of money rents and fines, so that had other economic conditions remained stable the new freedom could not have brought much increased prosperity to the peasants.

Fortunately, from many points of view, the discovery of new lands and changes in the value of money have been two great factors which, throughout history, have served to modify the hereditary contours of society. But the extent of that modification, as regards the distribution of material wealth, is not so great as has sometimes been imagined. The great fall in the value of money during the sixteenth century,

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which followed the working of the silver mines in the New World and the debasement of the currency, and which was chiefly responsible for the dissolution of feudalism, was obviously beneficial to many traders and to certain classes of the peasantry, whom it enabled to discharge their fixed monetary obligations more easily and thus to retain a larger share of their produce. And it is for this chief reason that by the end of the sixteenth century, there was a comparatively prosperous yeoman class midway between landlord and tenant, from whose ranks sprang in the eighteenth and nineteenth centuries many of the captains of industry.¹ But this section of the peasantry was only a minority; as regards the majority, the effect of the fall in the value of money was to diminish the security of their tenure without greatly diminishing the labour cost of their rent. Throughout the three centuries of transition, from Henry the Eighth to Waterloo, measures, first illegal and later legalised, were employed by the landlord class to retain their economic power. Increased fines and rents, wholesale evictions and enclosures followed the depreciation of money and marked the dawn of the capitalist system. Thus, in the course of time, the great majority of the descendants of the serf caste have become the landless "proletarians" of to-day, and only a particularly fortunate minority have been able to establish themselves as men of property.

At the present time—says Professor Cannan—"there are no clear-cut classes, no definite boundaries over which no man may step. The able members of the poorest class are constantly rising to the top, and the particularly incompetent members of the richest class are constantly falling to the bottom; but, all the same, among the bulk of mankind there is a continuous hereditary transmission of inequality of income, the importance of which it is foolish to ignore."²

The institution of inheritance is not indeed the sole source of this result,³ but it extends the magnitude and range in

¹ E.g. Strutt, Wedgwood, Peel, Cartwright.

² *Wealth*, p. 208.

³ See, for example, remarks in Chaps. II and III.

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time of hereditary inequality far beyond that which would result from unequal earning-power due to differences in heredity, training, and early environment.

§ 2. Judged by its effects on distribution, our system of inheritance is clearly indefensible on economic grounds. Can economic justification be found in its effects on production, or is the institution to be justified on other non-economic grounds? These are the questions to be discussed in this chapter.

In practice, the essence of the English system of inheritance is the right of a man to bequeath his property to anyone he likes. There are, we have seen, legal limits to the length of time after his death during which a man may control the disposition and enjoyment of his property, and to the nature of that control. But in general there are no legal limits to the circle of persons who may benefit under his will or to the extent of their benefit. The laws determining who shall inherit in cases of intestacy are of little economic importance, since very few rich people die intestate. In most other countries, however, where the portion of an estate which may be freely bequeathed is restricted by law, the right of inheritance, as distinct from the right of bequest, is of more importance.

Now the usual justification of inheritance, based on considerations of social ethics, is that the father of a family is rightly expected to support his wife and children while he is alive, and that when he is dead it is right and proper that the latter should continue to derive support from any property which he may have accumulated. But it is important to realise that this claim of family dependants, whether just or unjust, reasonable or unreasonable, is not formally recognised by English law, except in the rare cases of intestacy. It is indeed true that the large majority of English fathers and mothers do bequeath most of their property to their surviving spouses and children—and, in the exceptional cases where they do not, the will is usually contested in a court of law, where there is a natural predisposition to consider that the testator must

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have been mad or unduly influenced. But it is still possible for Englishmen who can be proved to have been not mad but merely bad to "cut off their children with a shilling." Such cases are, however, tolerably rare, so that our laws of inheritance seldom meet serious criticism on these grounds. The average father in practice interprets the right of bequest as the right to endow after his death those whom he supported during his life.

§ 3. The only *non-economic* argument in favour of freedom of bequest is the idea—now gone out of fashion—that a man has the "natural right" to do as he pleases with his own, even after his death. Possibly it was this idea that was responsible for the gradual discarding of the *legitim* principle in England. Yet when Englishmen were living closer to Nature than they are to-day, the idea would have seemed very unnatural; it would appear equally so in many modern countries.¹

I have previously remarked that property can quite well exist without the right of bequest being attached to it.² And since no one has yet succeeded in finding a satisfactory justification for property that is not the result of personal service, it is certain that the institution of property would stand more securely, if the right of unlimited bequest and inheritance were not attached to it.³

¹ Cp. Dalton, *op. cit.*, p. 288, "Many Englishmen, who have not studied comparative law, will think it natural that the ownership of their property after their death should be governed by their last will and testament. Most Frenchmen, in like case, will think it natural that the operation of their will should be subject to the law of the *Légitime*. But many Indians, far from thinking the disposition of property by will to be natural, will find great difficulty in understanding what the mere idea of a will signifies and implies. Indeed, Maine has pointed out that to the vast majority of mankind throughout recorded history the idea would be quite incomprehensible."

² See Chap. II, page 76.

³ Cp. Laski, *Grammar of Politics*, p. 187 and pp. 525-6. "The only principle upon which the possession of private property can be justified is the performance of function. I own because I serve; I cannot own because someone else has served. . . . It follows that there cannot exist an exclusive right of bequest."

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Mill, who did not shrink from applying Utilitarian principles to matters which most economists of his time preferred not to question, agrees with them that the right of bequest forms "part of the idea of private property," but remarks that "property is only a means to an end, not itself the end. Like all other proprietary rights, and even in a greater degree than most, the power of bequest may be so exercised as to conflict with the permanent interests of the human race."¹

§ 4. The legal right of the next of kin to inherit a part at any rate of the deceased's property—observed in cases of intestacy in England and in all cases in other Western European countries—is often thought to have some sort of moral justification, particularly where the next of kin are the widows or children of the deceased. They had a moral claim to his support during life, it is argued, and they have a moral claim to the support his property gives after death. One is expected to conjure up a picture of a penniless widow, or of orphans in their 'teens. Their father's hard-earned savings have rightly been put by for their benefit. Have they not a moral claim to these savings? Certainly no wise State, confronted with such a case, would deny that claim; it would rather hope that the savings were sufficient to pay for the orphans' upkeep, lest the ratepayers have to contribute.

But it is nonsense to suggest that the great bulk of the property bequeathed and inherited goes to sustain indigent widows and young children, who cannot fend for themselves. Most of the widows of rich men have, in fact, some property of their own; and the large majority of penniless widows have practically penniless husbands from whom they will never inherit anything substantial, whatever the law on the subject. Again, the average age of children who survive well-to-do parents is somewhere about forty. The description "children," for inheritors in the direct line of descent, is therefore

¹ It did so, he thought, when property was entailed for long periods, and when funds were bequeathed to educational institutions under conditions as to what should be taught. *Principles*, 7th edn. Vol. I, Bk. II, Chap. II, p. 273.

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apt to be misleading. The sons who inherit large estates are usually men rather beyond the prime of life, at the time of their inheritance, whose parents gave them in youth an expensive training, and who were already receiving before their inheritance a considerable income whether from earnings and savings, or from gifts of property made during their parents' lifetime. The advent of a large inheritance in such cases is only likely to deter them from exerting themselves to earn a living.

But even if all children were too young or otherwise unfitted at the time of their parents' death to earn a livelihood by their own exertions, would our sense of justice or of social expediency demand that they should be supported at a scale of living in proportion to their parent's property? Has the child of a man with £100,000, for example, a fair claim to inherit one hundred times as much as the child of the man with £1,000? For the idea that such a claim is fair and reasonable appears to underlie the Continental law of *legitim* and the English law of inheritance in cases of intestacy. The only argument for such a claim, on the grounds of social equity, would appear to be that the parent has accumulated property with the expectation that his children will inherit, that the children have been brought up with the expectation that they will inherit, and that it is unfair and causes unhappiness to disappoint such established expectations. Yet clearly such expectations are entertained because of the laws of inheritance, and if those laws did not exist, neither would the expectations exist. We are still faced with the question of whether or not such expectations are fair and reasonable in themselves, apart from the existing law on the subject.

Personally I agree with John Stuart Mill that children may reasonably claim from their parent that he should "provide, so far as depends on him, such education and such appliances and means, as will enable them to start with a fair chance of achieving by their own exertions a successful life. *To this every child has a claim*;" and I cannot admit that as a child he has a claim to more. There is a case in which these obligations present themselves in their true light, without any ex-

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trinsic circumstances to disguise or confuse them: it is that of the illegitimate child. To such a child it is generally felt that there is due from the parent the amount of provision for his welfare which will enable him to make his life on the whole a desirable one. I hold that to no child, merely as such, anything more is due than what is admitted to be due to the illegitimate child; and that no child, for whom this much has been done, has, unless on the score of previously raised expectations, any grievance, if the remainder of the parent's fortune is devoted to public uses, or to the benefit of individuals on whom in the parent's opinion it is better bestowed."¹

If this view is accepted, it follows that, in the large majority of cases where the sons of well-to-do parents have reached maturity before the latter's death, and have previously received education, appliances, and means, which were not insufficient on grounds of expense to give them a fair start, there can be no reasonable claim to any inheritance in addition—except on the score of previously raised expectations, for which the existing law and custom must be chiefly responsible.

§ 5. It follows also, as Mill was careful to point out,² that the law of *legitim* is not necessarily fairer than the English right of freedom of bequest, except in the indirect result that the former probably leads in practice to rather less inequality than the latter. It may perhaps be desirable to have some legal safeguard against the unlikely event of the young or disabled children of a well-to-do parent being completely disinherited by the latter's will. But the *legitim* law does far more than this when it decrees that each child must have a fixed *proportion* of its parents' estate, whatever the size of that estate. Thus, for example, in the supposed interests of equity, French law prohibits a millionaire with three children from

¹ *Principles*, Vol. I, Bk. II, Chap. II, p. 277.

² Mill, *op. cit.*, pp. 497–597. "The only reason for recognising in the children any claim at all to more than a provision sufficient to launch them in life and enable them to find a livelihood, is grounded on the expressed or presumed wish of the parent; whose claim to dispose of what is actually his own, cannot be set aside by any pretensions of others to receive what is not theirs."

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bequeathing more than one-quarter of his fortune to public or philanthropic purposes. Those who supported the *legitim* as more democratic than the English system, forgot that the practical argument against the custom of Primogeniture in our landed families is not that it left the younger sons too little, but that it left the elder sons too much.

§ 6. If it is difficult to uphold the right of children to inherit, by reference to the dictates of abstract justice, it is still more difficult to reconcile the right of inheritance by persons other than children or spouses. Here there is often no question of satisfying or denying established expectations. There is no doubt some recognition of this fact in French law, which only enforces the *legitim* for descendants or ascendants in the direct line; and both in English and French systems of taxation, inheritances and bequests by strangers and collateral relatives are taxed at a higher rate. But, in cases of intestacy, both under English and Continental laws, the property may pass to quite distant relatives. Of course, these cases of intestacy are in practice rare among well-to-do people and comparatively unimportant. But the law on the matter is significant as indicating how strongly legal practice is still influenced by the customs of earlier times, when families or clans were the chief social units, and had not been submerged in a common loyalty to the nation.

The law of inheritance, in cases of intestacy, is indeed something of an anachronism in modern England, where voluntary communism within the family is generally confined to parents and children and nearly always stops short of relatives more distant than brothers and sisters. For this reason, one cannot conceive that any hardship or sense of injustice would be caused by adopting Bentham's proposal that, where a man dies intestate, leaving no near relatives, his property should escheat to the State. According to Bentham, the near relatives who would have a right to succeed, should be confined to spouses, direct descendants, parents, and brothers and sisters. Mill, however, would exclude collateral inheritances entirely, on the grounds that brothers and sisters have no real claim

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on one another's support. But it seems more consistent, on the whole, not to consider the knotty problem of claims, but to include as eligible for intestate succession only those near relatives within the family circle, who would probably, in case of need, support one another voluntarily during life.¹

But the extent of the benefit awarded to them might well be limited, as Mill suggested, to the minimum provision which the deceased relative "ought to have made, their circumstances, capacities, and mode of upbringing being considered." Of course, if inheritances and bequests come to be fixed at a lower limit than this, this limit must apply equally in cases of will or of intestacy.

§ 7. Our main conclusion so far is that the ethical arguments in favour of claims to inherit, whether under will or the laws of succession, are extraordinarily weak in the case of near relatives, and non-existent in the case of distant relatives and strangers. They amount merely to illogical inferences from two propositions that are in themselves reasonable, namely, that parents ought to support their children till they can support themselves, and that reasonable expectations should not, if possible, be disappointed. The ethical argument in favour of the *right of bequest* remains the discredited one of "natural rights."

When we leave ethical questions on one side and turn to questions of economic expediency, the tests are perhaps surer and more definite. We have here to distinguish between the effects of the right of bequest on those who have property to bequeath, and the effect of bequests and inheritances on those who receive them. The latter will be considered first.

§ 8. The economic *defects* of permitting large inheritances are obvious. Apart from their bad effects on distribution, they act as a direct deterrent to work and personal economy, both before and after they are received. The man who expects to inherit, say, £100,000, generally does not start life with the idea that he has got to earn his keep, and the idea is still

¹ On the same grounds, a good case might be made out for including in the circle employees of old standing.

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further from his mind when he does inherit. Thus large inheritances, by taking away the economic incentive to work, do breed a class of "idle rich." The fortunate circumstance that this class is relatively small is due partly to the fact that large inheritances are relatively few, but partly also to the natural human instinct to lead a useful life, and partly to the traditions of those old-established families which, up till comparatively recent times, were entrusted with the task of central and local government.

§ 9. Large inheritances have, however, been sometimes defended on the ground that a leisured class performs consciously or unconsciously a useful function. There is first the curious idea that it serves to stimulate industry on the part of those who are not in it—an idea which seems to be based on the theory that work, not satisfaction, is the true aim of economic activity—that the donkey, for its own good, should be induced to desire an ever greater quantity of carrots.¹ In attacking Primogeniture, Mill found it necessary to ridicule the idea that it was "indispensable to the activity and energy of the hive that there should be a huge drone here and there, to impress the working bees with a due sense of the advantages of honey," and pointed out that, if you want to stimulate industry by examples of riches, the stimulus is more likely to be effective if you choose for your examples riches gained by industry rather than by inheritance.² Nevertheless, the idea seems to have impressed Taussig as well as McCulloch.³

¹ For a theory in direct opposition to this, see Chap. I, p. 39.

² Mill, *op. cit.*, Chap. IX.

³ Taussig, *Principles*, Vol. II, p. 253. "The immediate effect of idleness on the part of a fraction of the community is obviously to lessen the total available labour force; the great mass must work not only for their own maintenance, but for that of this privileged fraction. But the prospect of being a member of the leisure class has proved a wonderfully powerful bait to effective exertion and permanent investment. False as the ideal of exemption from labour seems to the thinking few, and doubtful as may be the happiness of those born to a life of leisure, the hope of privileged position for one's self or one's kin has been the main motive force for the material progress of society."

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§ 10. More important, however, is the theory that the existence of a leisured class of inheritors is necessary for the development of science and the arts, and for the progress of civilisation. The theory is supported by two arguments. The first is that the surplus income of society has never been sufficient to secure the refinements and culture of civilisation for all, that these would vanish if everybody had to earn their daily bread, and that it is better that a few should achieve a high level of civilisation than that all should remain in barbarism. "Feudal society," writes G. M. Trevelyan, "divided up the surplus product of the labour of the rural serf among barons and knights, bishops and abbots. By stereotyping and regularising the inequality of incomes derived from the land, it enabled wealth to accumulate in the hands of Lords and Prelates, and so stimulated the rich man's demand for luxuries, whence grew the trade and the higher arts and crafts of the merchant cities. In this way, the Dark Ages progressed into the Middle Ages, and barbarism grew into civilisation—but decidedly not along the path of liberty and equality. . . . The arts of civilised life were forced into being in mediæval England by the unequal distribution of wealth under the feudal and manorial system. . . ." ¹ In the same way, it may be shown that the civilisations of Greece and Rome rested upon slavery, or that, in our own day, the more democratic and equalitarian conditions in some of the younger colonies are unfavourable to culture.

The second argument is closely connected with the first. It is that the greatest developments in science and art have often been the fruits of labour which was unremunerative to those who performed it, and which could not have been undertaken without the support of unearned income over the long period during which the ultimate value of the work to society was unrecognised. Again it is suggested that descendants, established in the leisured class by a progenitor who acquired riches by superior ability in the economic sphere, are likely

¹ G. M. Trevelyan, *Short History of England*, p. 133. The author writes neither to praise nor blame.

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themselves to possess more ability than the average. If the ability were inherited without the fortune, it is argued, it would probably be absorbed in the acquisition of material wealth, or crushed by adverse circumstances. In the former case, there may be a definite economic gain to society as well as to the individual, but not perhaps the greatest gain to the former, when economic considerations are viewed in proper perspective. For if a fortune is inherited along with great ability, the inheritor is more likely to scorn material rewards and to devote himself to those higher intellectual activities, which have no immediate and obvious economic value, but which lead to the greatest human achievements, and may prove ultimately of incalculable benefit to mankind. In short, genius must be protected from economic necessity, and, directly or indirectly, inherited wealth enables inherited ability to do its best work.

§ 11. The first argument may be based on historical facts, but these may be examples of what to avoid. The ideal of civilisation which the argument supports is frankly in opposition both to utilitarian philosophy and to Christian ideals, and is hardly likely to appeal to democratic communities, which do not attach a mystical value to the achievement of knowledge or art for its own sake, when their own happiness is at stake. Were the choice inevitable between the pursuit of economic liberty and equality, on the one hand, and the highest development of art and science on the other, I should be disposed to reply in the manner of the French Revolutionaries to La Voisier, "*La République n'a pas besoin de savants.*"¹

But, in fact, there is no such inevitable choice in modern Britain. As a means of fostering the growth of science and the arts, the "leisured class" must be judged to-day as an inefficient and unnecessary institution. For, in the first place, it is plain that the great bulk of its surplus income is not spent with that object or with that effect²; and, in the second place,

¹ The reply said to have been made by the President of the Tribunal which condemned La Voisier to the guillotine.

² See Chap. I, p. 55.

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theory and experience suggest that the Universities, and other corporate and public bodies can perform that function no less efficiently from the point of view of the scientists and artists, with less waste of society's income, and with cultural benefit to a larger section of mankind. If we look at modern tendencies in Britain, we can see that, just as the provision of material capital is devolving more and more on corporations and the State,¹ so is the responsibility for promoting knowledge and beauty. Hitherto, indeed, from Galileo to Einstein, the Universities have nearly always recognised scientific merit and have been chiefly responsible for facilitating its achievements. If, in the past, they were largely dependent for funds on the benevolence of the rich, that is not so to-day. Artists are perhaps in a less fortunate position than men of science, being more dependent on uninstructed patronage. But there is no necessary reason why professional and official bodies, or even the directors of business corporations, should make more errors of judgment and taste than rich private patrons; and a much wider public is able to appreciate or criticise their choice.

§ 12. The second argument outlined above—that many of the greatest thinkers were dependent for their livelihood on inherited fortunes—finds little support in the history of modern times. Of the great scientists of the nineteenth century, Darwin and Clerk Maxwell had sufficient inherited means for a comfortable life, though their fortunes were not very large. But Huxley, Mendel, Helmholtz, Faraday, Ampère, and Lobachevsky—not to mention the inventors Watt and Stevenson whose work brought a fortune—inherited little or nothing in the way of material wealth; and Kelvin, Wallace, and Priestley seem to have been largely dependent on what they could earn and save. Even in earlier times, when scientific training was more difficult to acquire without leisure and means, we find Galileo, Newton, and Leibniz supported by University appointments and official favour, rather than by inheritance. Equally among those famous in art, music, and literature, the rich inheritor is a *rara*

¹ See Chap. I, pp. 43-5.

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avis, and the large majority have known the pressure of economic necessity.

But even if it were true in every case that genius in certain fields is unable to develop fully without inherited property to support it, that would still be no reason for permitting inheritances in excess of the minimum required to secure the necessities and conveniences of life. It is unnecessary to dogmatise, but I should judge that a large inheritance has more often been an encumbrance than a support to potential genius.

§ 13. There is one other non-economic argument in favour of inheritances large enough to secure freedom from the curse of Adam, and one which appeals in practice to many who would forswear it in theory. It is that which Plato gives in the *Republic*. "I see that you are indifferent about money," says Socrates to Cephalus, "which is a characteristic rather of those who have inherited fortunes than of those who have acquired them; the makers of fortunes have a second love of money as a creation of their own, resembling the affections of authors for their own poems, or of parents for their children, besides that natural love of it for the sake of use and profit which is common to them and all men. And hence they are very bad company, for they can talk about nothing but the praises of wealth." And Cephalus remarks in reply that "the great blessing of riches, I do not say to every man but to a good man, is that he has no occasion to deceive or to defraud others, either intentionally or unintentionally."¹

Yet we may question the social value and the permanence and dependability of a generosity and honesty of character that can flourish only when the fear of poverty is artificially removed; and it is not impossible to picture Cephalus in another setting repressing a revolt of slaves with a feeling of justifiable ferocity. When the basis on which it is founded is seriously questioned and shows signs of instability, the character of the leisured class is often seen in a very different light. "Their whole habit of thought becomes timid," says Bertrand Russell, "since they dread being forced to acknowledge that their posi-

¹ *Republic*, Jowett trans.

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tion is indefensible; yet snobbery and the wish to secure their favour leads almost the whole middle class to ape their manners and adopt their opinions. In this way they become a poison infecting the outlook of almost all educated people."¹

§ 14. The usual economic defence of Inheritance rests on the advantages of the right of bequest rather than on the right of inheritance. It is that, unless men have the right to dispose of their property after their death as they please, they will not take the trouble either to preserve or to increase their capital, and to provide in this way for the needs of the coming generation. It is said that, without the secure ability of private persons to provide after death for those whom they love, the material equipment of society will diminish, and, however much the gain in greater equality of distribution, it will not compensate for the loss in productivity. "In a society organised on the basis of private property," says Taussig,² "inheritance is essential to the maintenance of capital. . . . For, sustained accumulation and permanent investment, the main motives are domestic affection and family ambition. . . . If we were to put an end to inheritance, decreeing that all estates should escheat to the public at death, the owner would commonly dissipate his property. One of the motives for its first acquisition would be gone, and certainly the chief motive for its maintenance. Why accumulate and invest for the benefit of the community at large? "

It is clear that the argument applies with more force to the English system of freedom of bequest than to the Continental laws of inheritance. It only applies to the latter in so far as the legal restrictions of the *legitim* accord with the wishes of the property owner and are therefore unnecessary. The practical effect of the two systems on the desire to save is probably, however, much the same. For, since most parents desire chiefly to benefit their offspring, the knowledge that the latter will inherit the bulk of their property by force of law is, in the large majority of cases, no less strong an incentive to accumulation

¹ *Principles of Social Reconstruction* (1916), p. 128.

² *Principles*, Vol. II, p. 249.

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than the right of free bequest. And, in the case of those who are not parents, Continental law permits in most cases the same freedom of bequest as in Britain.¹

§ 15. The argument is frequently accepted as based on self-evident propositions and beyond the reach of critical analysis. In fact, it is no more water-tight than most hasty generalisations. Let us agree that the desire to provide for children is a most important incentive to industry and saving among parents, and that the fact that property can be disposed of after the death of its owner in accordance with his wishes makes property more desirable, and therefore acts as an additional stimulus to its acquisition and preservation. But it does not follow that inheritance is therefore essential to the maintenance and increase of capital; still less may one infer that *unlimited* inheritances are necessary for that purpose.

In Chapter I we considered the question of what constituted an adequate supply of fresh capital. We saw that, apart from the addition or subtraction of incentives, anything which brings about a much more equal distribution of income must—unless the total income is greatly increased—reduce the total ability of private persons to save; but that a decline in private savings does not necessarily render inadequate or even reduce at all the total supply of fresh capital, because there are alternative means of supply. It was pointed out that Companies' undistributed profits already supply 40 per cent. of the total of British savings, and a still higher proportion of the total invested in British industry; and that the provision of capital by the State out of the proceeds of taxation was not only theoretically conceivable, but was actually being effected within a limited sphere. Neither of these alternative sources of supply need be adversely affected by the abolition of inheritance. On the contrary, business reserve funds can, if the community desires, be increased by fiscal inducements or legal compulsion; and the extent of State saving is limited only by considerations of public policy, and ultimately, of course, by the total income

¹ Since comparatively few property owners die before their parents.

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of its citizens. For a more detailed consideration of the potentialities of these alternative methods of obtaining capital, I must again refer the reader to Chapter I. Here it is only necessary to show that, however the existence of inheritance may affect the psychology and means of the individual saver, it is not an indispensable factor in the maintenance of capital.

§ 16. In the second place, the desire of parents to provide for their children may be, among parents, the strongest motive for the accumulation and maintenance of capital. But it is a motive which cannot operate among those who are not parents, and to these the right of bequest and the laws of inheritance can hardly have the same importance. Yet it is a significant fact that a considerable proportion of rich persons leave no descendants to enjoy their property. For example, during the three years 1923-5, of those in Britain leaving estates in excess of £100,000, 33 per cent. had no surviving children, and 23 per cent. left neither spouse nor child.¹ It is difficult to see what influence "domestic affection and family ambition" can have had, in such cases, on the preservation of capital.

§ 17. In the third place, if, in the case of parents, the desire to provide for their children is the all-important motive for industry and saving, the right of bequest by will is in reality of little importance, *provided the right of gift during life remains*. Why should a father wait till death to provide for his children, who will then normally be middle-aged persons at the height of their earning and saving capacity and with economic futures that are probably already made or marred? Gifts of property at an earlier age are much more likely to be of real utility to the children. The fact is that parents of means can, as a rule, make better provision for their children by gift than by inheritance. But when a fortune has passed a certain limit, further accumulation is no longer inspired by family affection, nor even, in many cases, by the desire to leave the accumulation to anyone in particular. Why else should we find that, even with a 30 per cent. or 40 per cent. death duty waiting for

¹ See Reports of Commissioners of Inland Revenue for those years (Estate Duty figures).

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them, millionaires will still retain a large portion of their property till the last moment of life?

We may conclude, then, for the present, that the right of bequest and inheritance is *not essential* as a stimulus to private saving. For, as regards those saving from other motives than the provision for dependants, there seems no reason why the abolition of the right of bequest should greatly affect their actions. And, in the case of those who save with the object of handing on property to their family, they can achieve their object as well by gift during life as by bequest at death. If inheritance were abolished, they would choose the former alternative; and, since it is always possible to make formal or informal arrangements whereby the donor receives an allowance for life in return for his gift,¹ practically the whole of their property would, in many cases, be given away well in advance of death. Of course, some would die much sooner than they expected, and thus part of their savings would not in fact be handed on as they intended, but would escheat to the State. The fact that the time of death cannot be confidently predicted in individual cases, and the feeling of insecurity caused on this account, might deter some from saving as much as they otherwise would; but, in other cases, the effect would be to induce them to make their gifts larger and earlier. Of course, both the ability and the incentive to save of those in old age would be reduced, but, on the other hand, that of the young would be increased.

Thus, in general, the chief effect of the abolition of inheritance by itself would be—not to diminish the incentive to save and to encourage the dissipation of capital, as Taussig suggests—but to stimulate gifts between the living, as the obvious alternative to bequests at death. The effect of a heavy progressive tax, falling both on inheritances and on gifts made within a certain period of death, is a different matter, and will be considered in the next chapter.

¹ E.g., by the mechanism of the private company; see remarks in Chap. X.

CHAPTER IX

THE EQUALISATION OF INHERITANCES BY TAXATION

§ 1. SOME form of tax on property passing at death operates in most modern States, and modifies in a greater or less degree the inequality of inheritances.¹ In Britain, with the scale of rates of the Death Duties at their present level, the modification is considerable, though its full effects will not be apparent for another ten or fifteen years.

The British Death Duties consist of two main sets of taxes. The first, the Estate Duty, falls on all estates passing at death in excess of £100 net, with a moderately progressive scale according to the value of the whole estate. The second, the Legacy and Succession Duties, which are in effect one tax,² is levied on bequests and inheritances, and is progressive, not according to amount received, but according to the distance of relationship of the legatee or successor. The Estate Duty is now much the more important and raises more than six-sevenths of the £60 millions³ or so derived from the Duties. The effects of the Legacy and Succession Duties on the distribution of property may be treated in practice as negligible. The rates of Estate Duty (as determined by the Finance Act of 1925) rise from

¹ For Inheritance taxes in countries other than Britain, see Max West, *Inheritance Tax* (1908), Besson, *Traité pratique de l'impôt progressif des successions* (1920).

² All personalty devolving under will or intestacy is liable to Legacy Duty. Settled personalty and all realty in Great Britain is liable to Succession Duty. The rates of Tax in each case are 1% on inheritances in the direct line or between spouses; 5% on inheritances by brothers, sisters, nephews, nieces; on other collateral inheritances and bequests to strangers, 10%. For a clear account of property liable to Death Duties, exemptions, etc., see 65th Report of Inland Revenue.

³ £70 millions in 1928.

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1 per cent. on estates of £500 to 15 per cent. on estates of £50,000, 20 per cent. on estates of £100,000, and 30 per cent. on estates of £1 million, the highest rate being 40 per cent. on estates of over £2 million.¹ The effect of the Duties in modifying the distribution of property passing at death is illustrated by the following table:

GREAT BRITAIN IN 1925-6²

Range of Estates.	Number of Estates.	Net Cap. Value paying Duty.	Net Receipt of Estate Duty.	Amount Disposable after paying E.D.	Average Estate before paying E.D.	Average Estate after paying E.D.
		£ mills.	£ mills.	£ mills.	£	£
£100-1,000 . . .	67,187	29.54	0.42	29.12	440	434
£1,000-5,000 . . .	26,236	68.74	2.05	66.69	2,620	2,540
£5,000-10,000 . . .	5,722	48.70	1.93	46.77	8,520	8,200
£10,000-25,000 . . .	4,004	74.65	4.66	69.98	18,600	17,400
£25,000-50,000 . . .	1,427	56.16	5.68	50.48	39,400	35,300
£50,000-100,000 . . .	656	51.76	7.40	44.36	79,000	67,600
£100,000-250,000 . . .	308	50.78	9.57	41.21	165,000	134,000
£250,000-500,000 . . .	63	27.16	6.43	20.73	431,000	330,000
£500,000-1 million . . .	26	25.17	6.79	18.38	970,000	710,000
£1 million and over . . .	7	23.73	7.92	15.81	3,400,000	2,260,000
Total . . .	105,636	456.39	52.86	403.53		

§ 2. From the point of view of their effects on distribution, the Death Duties in their present form have certain obvious defects—quite apart from the question of steepness of gradation. In the first place, the chief tax, the Estate Duty, is not

¹ The rate of progression is not yet so steep as that of Income Tax and Super-tax together on Investment Incomes, see Appendix XVI, Colwyn Committee Report.

² The rates of Estate Duty in the middle grades (e.g. from £25,000 to £800,000) were increased by the Finance Act, 1925, and took effect for deaths after June 29th, 1925. Much of the property in this financial year would be taxed at the previous rates. For minor discrepancies in the figures, as between the different columns, due to payment of duty in certain cases by instalments, delay in ascertaining exact value of estates, etc., see the official remarks in the Inland Revenue Reports. These discrepancies, on balance, do not have much effect.

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graded according to the amount of the individual inheritance, but according to the total estate left at death. It therefore takes no account of differences in the number and amounts of legacies coming out of an estate. The deduction is the same whether the whole estate passes to one single heir, or is distributed among one hundred persons. I do not say this is inequitable, but obviously it is less favourable to equality of distribution than an inheritance tax with the same rate of progression would be.

The Estate Duty is, indeed, supplemented by a comparatively light tax levied directly on bequests and inheritances. But these Legacy and Succession Duties make no attempt at progression according to amount, except in so far as small bequests and successions are altogether exempted. The method of progression according to distance of relationship is, if anything, unfavourable to the equalisation of inheritances, since it differentiates in favour of keeping property within the family and presses more heavily in proportion on bequests to strangers and to charities. The only economic justification of that method of progression is that people are usually more intent on accumulating for the benefit of direct descendants than for collaterals and strangers, and that consequently a higher duty can be imposed on bequests to the latter without discouragement to saving.¹ Certainly there is some truth in this theory, which would be more evident if the rate of tax were very much higher; but there is nothing here to justify the absence of progression according to amount.

The fact is that the Legacy and Succession Duties are survivals from a period when progression according to amount was considered immoral. And since then, nobody has bothered much to reform the anachronism and to bring these duties up to date, because their younger sister, the Estate Duty, has overshadowed them.

¹ Cp. Sidgwick, *Principles* (3rd Edn.), p. 580, Bk. III, Chap. VIII. "It seems expedient in the case of these taxes to give up the ordinary aim at equality of incidence so far as to place a much heavier tax on wealth inherited by persons not in the direct line."

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§ 3. It is clear that the chief reason why the Estate Duty was not introduced in the form of an Inheritance Tax was an administrative one.¹ An Inheritance Tax would, in the opinion of the experts, be more costly and more difficult to collect. The chief difficulty appears to be that, while the State gets at present "full particulars of the manner in which an estate is intended to be distributed," "it has little or no knowledge of the actual final distribution,"² which may depend, in the case of settlements, on a number of contingencies. It is by no means always clear from the terms of a will, either what persons benefit, or the actual extent of their benefit; and "dummy" legatees might be inserted in a will with the object of cheating the revenue.³ The authorities would have to rely partly, at least, on the statements of executors as to the actual distribution of benefits, and executors' statements would have to be checked. Collection of the present Estate Duty is clearly simpler, since it is assessed by reference to the whole estate and paid at the source before distribution. Deduction at the source would not always be possible in the case of an Inheritance Tax.

Nevertheless the Board of Inland Revenue reported to the Colwyn Committee that a tax graduated by reference to the amount of benefit received could be effectively administered, provided certain necessary powers were obtained by legislation.⁴

§ 4. It has been suggested that a second defect of our system of Death Duties, from the point of view of their effects on distribution, is that no account is taken directly or indirectly of the previous wealth of inheritors. "It seems unreasonable," says the Minority Report of the Colwyn Committee, "that a millionaire receiving a bequest of £1,000, should pay no higher rate of duty on this than does a person whose property prior to the bequest amounts to no more than a few hundreds." But

¹ See Dalton, *Inequalities of Income*, p. 313. In 1886 Lord Randolph Churchill had in mind a direct Inheritance Tax, but was dissuaded by Treasury officials.

² See Appendix XXVI to Colwyn Committee Report.

³ I.e. the "dummy" would undertake to pass on the legacy or to hold it for the benefit of the real heir.

⁴ See Appendix XXVII to Colwyn Committee Report.

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in practice people do not leave £1,000 bequests to millionaires, they either bequeath a great deal more or nothing. In general, the larger bequests and inheritances go to those who are already fairly well off, and the smaller bequests to those who are less well off. Again, the Majority Report of the same Committee points out with some truth that any test of the inheritor's "other wealth" is likely to be arbitrary.¹

Nevertheless, the absence of graduation according to the previous or total wealth of inheritors is a theoretical defect of our Death Duties, which might have practical significance, if the Legacy and Succession Duties were transformed into a highly progressive inheritance tax. In such a case, I do not see any insuperable difficulty in graduating the tax, not merely according to the amount of benefit received by a given inheritance, but according to the inheritor's total property. If *gifts inter vivos* are dealt with in the same way, as I suggest in the next chapter (where I deal more fully with administrative difficulties), we should then have a more ideal progression, according to the total amount of a man's gratuitous property.²

§ 5. If our present Death Duties take no account of the inheritor's previous property or income, they do take some account of his or her needs. Thus widows, and children under the age of twenty-one years, are exempted from Legacy and Succession Duty when the benefits derived from the dead husband or father do not exceed £2,000; and the property of common seamen and soldiers who die on service, and who are perhaps more likely than other classes to leave widows with young children unable to provide for themselves, is totally exempted from Estate Duty. There is, indeed, a good case for extending abatements to all cases of inheritors who are unable to support themselves, on account of extreme youth or age, sickness or infirmity.

A third possible objection to our Death Duties, from the distributive point of view, is that on balance they differentiate against rather than in favour of charitable bequests. Charit-

¹ See Maj. Rept., Colwyn Committee, par. 1026.

² See Chap. X, pages 250-3 below.

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able *gifts during life* are indeed favoured to the extent that they are exempted from Estate Duty, if made more than one year before death. But bequests over £100 to servants, employees, and philanthropic institutions are all taxed at the highest rate for Legacy and Succession Duty.¹ I do not suppose, however, that this in itself would discourage such bequests. More important, perhaps, is the fact that the Estate Duty falls with equal weight on estates of the same value, whatever the portion destined for charitable purposes.

One must remember, however, that all taxation necessarily tends to reduce the taxpayer's *capacity* to be philanthropic from his private funds, at the same time that it increases the capacity of Government to serve society at large. But this consideration need not deter us from giving such mild encouragement as is feasible to gifts and bequests to poor people, to philanthropic bodies and research institutes, and to the State, so long as these are not accompanied by obnoxious conditions such as those to which Mill objected.² Actually, no legislator who supplants our Legacy and Succession Duties by a progressive Inheritance Tax at all drastic in character, is likely to omit to make certain exemptions and abatements in the case of such bequests. There is rather perhaps a danger that the exemptions and abatements may be too indiscriminate; for although nearly everybody may agree that certain philanthropic bequests are deserving of favour, everybody may not agree where to draw the line.

§ 6. The chief defect of our Death Duties, as an instrument for reducing inequalities of gratuitous property, lies not in the method of progression, but in the fact that they do not apply to the large majority of gifts between the living. I deal with this question in more detail in the next chapter. It is sufficient to repeat here what has already been made plain, that hereditary inequalities of property can take place by the medium of gifts

¹ Bequests of articles of national, scientific, etc., interest are exempted.

² E.g. bequests to educational institutions conditional on certain doctrines being taught.

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during life just as well as by inheritance at death. It is true that when a large part of property is distributed to heirs by gift during the parent's life, there is likely to be somewhat less accumulation, and fortunes are not likely to grow so large, as when they are retained till death, so that on this account there might be some diminution of inequality. On the other hand, when taxation is imposed at a progressive rate on property passing at death only, the larger property owners are likely to give during life a larger *proportion* of their estates than smaller property owners. Consequently, while the inequality of taxed inheritances is reduced, that of untaxed gifts is increased. This is what takes place in some degree under our present Death Duties.¹ The present limitation of exempt gifts to those made more than three years before death is not an effective method of dealing with the problem, and is not particularly equitable.² We do not want to discourage gifts and to encourage people ungenerously to retain their property till death, since a gift made at an earlier age is likely to be of more benefit to heirs than the same sum received by inheritance when the latter are middle-aged. For this reason alone, we should oppose proposals to "tie up" property in such a way as to make gifts more difficult. The object of the legislator should be not to check gifts, but to reduce their inequality. Hence—waiving for the moment administrative difficulties—the best plan, from the distributive point of view, would be a progressive tax falling equally on gifts and inheritances, accompanied perhaps by a rather milder³ Estate Duty on property passing at death. The latter tax would encourage earlier distribution among the living, while the former would reduce the inequality of that distribution.

§ 7. It has sometimes been suggested that the Death Duties are inequitable because they do not fall on all estates at the same interval of time. For example, within the space of a cen-

¹ See Chap. X, p. 244 and note.

² See Chap. X, p. 248.

³ I.e. rather milder than the Inheritance and Gifts Tax—not necessarily than the present E.D.

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tury, some estates may change hands at death three times, some four times, some five times, and so on. Thus, there is an element of uncertainty as to the effect of the Death Duties on the estate of any particular family. With a series of succession intervals shorter than the average, a family estate will diminish more rapidly or will increase less rapidly within a given space of time, both because there is less time for each generation to add to it by saving, and because the Death Duties fall with greater frequency. It is suggested that this is inequitable, but it is hard to see in what respect. Is the unfairness on the man who founds a family or on his successors? In the former case, he cannot foretell the succession intervals of his descendants and cannot, therefore, resent the effects of any undue rapidity of succession. And, in the case of the successor, he surely can scarcely claim a legitimate expectation to receive any larger proportion of a given bequest or inheritance than other inheritors. He cannot reasonably expect the community to recompense him for the misfortune of having a short-lived predecessor, beyond adjusting the rate of tax to the size of his inheritance. The disappointment of *irrational* expectations is not an injustice.

The Death Duties are also said to be inequitable, because they do not take into account either the capacity of the individual to make provision for them during life, or the effect of fluctuations in property values. This argument is evidently based on the theory that the Death Duties are in the nature of a "deferred income tax," and should, therefore, be graded according to the previous owner's ability to pay. But, since one does not have to pay during life the Death Duties on one's own estate, and their conversion to an income tax by means of insurance or a private sinking fund is not compulsory, the argument is clearly invalid. An income tax is not necessarily the only equitable tax, and the fact that the Death Duties are not equivalent to an income tax does not render them inequitable.¹

¹ Both the preceding arguments are mentioned in the Colwyn Committee Report, pars. 480-9, and are not examined with the Committee's customary clarity.

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§ 8. The chief opposition to the Death Duties is based, not on considerations of equity, but on the view that they reduce the supply of capital. It is indeed often asserted—though not usually by economists—that the Death Duties are the most damaging of all our taxes in their effects on productivity, because they are levied not on income but on accumulated savings. In that form the argument is certainly fallacious.¹ Because Income Tax is usually paid out of current income, and the Death Duties are sometimes paid by selling part of the deceased's property, that is no proof that the Death Duties trench upon savings more than an income tax. In neither case, of course, is there actual annihilation of existing capital.² The difference between the two transactions is that, in the first case, the tax is paid out of income which might have been "saved" by the taxpayer, and, in the second case, out of the proceeds of actual savings by others than the taxpayer, which might otherwise have been invested in industry. The difference is apparent rather than real. For a man may save more than he would otherwise do in order to provide for the Death Duties; while, on the other hand, it is conceivable that he might meet Income Tax simply by reducing his customary saving. To say that the first tax is paid "out of capital" and the second out of income is, therefore, either meaningless or definitely fallacious.

A second and equally obvious consideration is that taxes paid out of the taxpayer's actual or potential capital do not cease to be actual or potential capital in the hands of Government. This is particularly obvious where Death Duties are paid in War Bonds, in which case Government merely cancels its debt to the taxpayer. But it is equally true of all other means of payment, that Government *can* always use the revenue either to reduce its liabilities or to increase its assets. Whether it does

¹ See Stamp, *Fundamental Principles of Taxation*, pp. 145–8.

² Except in the sense that a man can, if he wishes, pay either tax by spending less on the maintenance of his private possessions (not controlled by companies), thus shortening the life of the capital goods within his control. In the case of capital controlled by companies this policy cannot be pursued.

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so or not depends not upon the nature of the tax, but upon the nature of the Government.

§ 9. Most fallacies regarding the Death Duties, and “ progressive ” taxation generally, can be traced to the inability to realise three self-evident theorems—*first*, that the immediate effect of all taxes is to reduce the amount which private individuals can at will *either* consume or save; *second*, that private saving is not the only way by which capital is maintained and increased; and *third*, that a reduction in the supply of capital does not necessarily involve a reduction in productivity. I have previously enlarged on the last two theorems (see Chapter I) in connection with the general problem of distribution. It is only necessary here to point out the corollaries applicable to the present discussion.

As regards the second theorem, it is clear, for example, that the supply of capital to British industry would be greatly increased if the Government were to raise £1,000 millions a year by the Income Tax and Death Duties, and to invest the whole of the proceeds in British industry; for, though the effect of such a course would probably be to stop nearly all private saving, the latter does not amount to anywhere near £1,000 millions a year. The force of the example is not reduced by the practical consideration that no government would be mad enough to try it, and no electors foolish enough to permit such a course. The argument, that progressive taxes, whether levied on income or capital, reduce saving rather than extravagance, can always be met by the answer that, if the tax is high enough, it *must* reduce extravagance, and that the effect on the supply of capital depends largely on what the Government does with the money raised.

As regards the third theorem, it is also evident that taxation is not necessarily injurious to productivity, even if it reduces the total saving from all sources, and not only private saving. More capital at any price is obviously a futile motto for governments as well as individuals. Saving is neither a private nor a public virtue when it is done at the expense of health and happiness. No sane person would advise a family man with £3

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a week to put by half of his income. And no government in its senses would stop all public expenditure on health and education in order to use the revenue for the cancellation of the National Debt.

It is, then, no valid argument against "progressive" taxes in general or against the Death Duties in particular that, by pressing chiefly on the richer classes, they reduce the surplus out of which the bulk of private saving comes, unless it be coupled with a demonstration that Government inevitably puts the proceeds to less beneficial uses than the private taxpayers would.¹ And in that case, it is rather an argument against governments and taxation in general. For clearly no taxation is justified if it does not deflect labour and capital from less useful to more useful purposes—utility in this case being judged from a wider angle than the purely economic.

The comparative merits of a tax may rightly, however, be judged by its psychological effects on the individuals concerned. It is plainly undesirable, for example, that a tax should discourage a man from being a useful member of society and behaving in a manner beneficial to his fellows. It ought, on economic grounds, to be met so far as possible by a reduction of the least necessary or least useful elements of private expenditure. It ought not to discourage anyone from contributing his best service to the community, or, in narrower economic terms, from industry, enterprise, and personal economy. Those who can work and save with benefit to themselves and others ought not to be discouraged from doing so.

§ 10. Do the Death Duties discourage work and saving? The opponents of Death Duties appear to be of two schools of thought on this matter. There is first the school, represented by Sir Felix Schuster, which considers that Death Duties are

¹ Cp. Dalton, *Public Finance*, p. 33. "Ability to save is reduced by all taxes on those who have any margin out of which saving is possible. The only taxes, therefore, which do not to some extent reduce ability to save are those which fall exclusively on people who are so poor that they have no such margin." It follows that taxes which do not reduce the ability to save *must reduce the ability to work*.

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bad because they are forgotten by the living, who therefore make no effort to make provision for them by extra saving.¹ But, clearly, you cannot say that a tax *discourages* saving, because it does not encourage people to save *more* than they would otherwise do. In fact, however, a certain number of people, though probably only a minority of the well-to-do classes, do make special provision for death duties by insurance.

There is, secondly, the larger school of thought which takes the opposite view and considers that the Death Duties appear as an ever-present menace to those who wish to "found a family," and thereby cause them to make actually less effort to provide for their heirs.

The first opinion is turned in the opposite direction by some advocates of the Death Duties, who consider that, in so far as they are forgotten by the living or discounted more than actuarially they should be, there is a positive advantage, because other taxes on property and income, recurring during life-time, are more obvious and keenly felt and thereby do more to discourage work and saving.² Other thinkers on the subject directly negative the second opinion and consider that the effect of the Duties is to make fathers of families save more, in order to provide for their children a sufficient property to withstand the inroads of taxation.

Actually, as applied to the present system of Death Duties, such arguments are not of great importance, so long as there is the gaping loop-hole of gifts *inter vivos*. I have previously argued that the chief effect of the complete confiscation by the State of property left at death would be not so much to discourage saving, as to replace inheritance by gifts during life. And the same reasoning obviously applies, though in a less degree, to a heavy inheritance tax or Estate Duty.

§ 11. But, since, if the Death Duties were to be employed to raise a much larger sum than at present, their scope would have to be widened in some way so as to fall on large gifts as

¹ Colwyn Committee Report, par. 526.

² E.g. Pigou, in evidence to Colwyn Committee and in *Economics of Welfare*, p. 673.

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well as on inheritances, it is a useful theoretical problem to consider what would be the psychological effects on savers and inheritors of a tax on property acquired both by gift and inheritance, graduated directly according to the amount received. The practical problem of whether or not such a tax is administratively feasible I leave for later discussion. It is to be assumed at present that the tax cannot be evaded.

Will such a tax strengthen or weaken the motives which lead people to work and save?

“Ordinary work,” says Mr. Bertrand Russell, with obvious truth, “is done for the sake of a living, and the best work is done for the interest of the work itself.”¹ A large inheritance must be held to diminish the force of the ordinary motive, in the case of the recipient. Hence one effect of a tax which reduces materially the size of inheritances must be, in many cases, to encourage inheritors to work more than they would otherwise do.²

There must also, however, be a certain number of people, who have already saved or inherited sufficient property to enable them to be idle, and who yet continue working, either from interest, or from a sense of social duty, or from the urge to accumulate. An inheritance tax cannot affect the work of such persons when actuated by the first motive; nor can it affect the second motive, unless it is felt strongly to be unjust and thus causes an irrational pique with society at large. In the case of work done from the third motive, the effects of the tax will depend on whether it makes accumulation look more or less attractive.

§ 12. The motives which lead people to save cannot be reduced to any simple formula, and obviously vary in strength and quality according to the temperament and circumstances of

the individual. But they may be analysed roughly as follows³:

¹ *Principles of Social Reconstruction*, p. 128.

² Cp. Dalton, *Public Finance*, p. 93, and in evidence before Colwyn Committee.

³ This classification is largely influenced by that given in Sir Josiah Stamp's *Fundamental Principles of Taxation*, pp. 157-61.

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In the first place, a good deal of saving is done with the object of providing a store which can be drawn upon to meet current expenditure, when the saver's needs increase, owing to addition to the family or the claims of its education, or when the saver's income declines in unemployment, sickness, or old age. Such saving is what Sir Josiah Stamp calls "long-distance spending," and a parallel might be drawn between it and that part of companies' reserve funds intended to cover depreciation or to equalise dividends. The great bulk of the savings of the working class and small-salary earners are of this character. But since the larger part is withdrawn later to meet current expenditure, it is not an important factor in the provision of fresh capital. For the same reason, and because the individual savings in this class would usually in any case be too small to attract any considerable rate of duty, our Inheritance Tax would make no difference whatever to savers in this category.

§ 13. Secondly, a man may save with the object of becoming partly or wholly independent of fluctuations in what he earns, that is, with the object of obtaining or increasing an investment income. Probably a good deal of the saving of the middle classes is done partly or largely with this motive.

An inheritance tax cannot affect the force of this motive, except in so far as it cuts down incomes from inherited property and thus makes the getting of additional investment income more desirable.

§ 14. Thirdly, there are motives for saving not connected with the material comforts of the saver or his family. Thus persons, with no family dependants, who have acquired or inherited sufficient property to provide at least enough for a comfortable life, if the property is kept as a permanent investment, and still more than enough if the property is gradually disbursed as an annuity, may continue to preserve and increase their property, because they dislike extravagance. Again, a few very wealthy persons may save because it is more difficult to spend all their income. But both the last motives would equally lead people to *give* away a large part of their surplus to poor

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friends or to philanthropic bodies. Probably much the most important motive, which prompts men, with no family claims, to go on accumulating long after they have provided quite enough for a comfortable life, is the desire to achieve social distinction and power by the possession of a large fortune, or fame after death by leaving one.

I cannot see how an inheritance tax could discourage saving on the part of people actuated by such motives. Certainly a heavy inheritance tax would make it much more difficult to achieve a large fortune if only for the reason that it would practically limit the time during which it could be accumulated to one generation. Possibly one effect might be that some of those in the last category would look for fame in other directions, less profitable perhaps but not less worthy of encouragement. But the fact that the chance of a man leaving £1 million is reduced from 1 in 100,000 to 1 in 1,000,000, will not turn an ambitious man into an idler and spendthrift.¹

§ 15. Lastly, there is the case of the man, who saves in order to provide for his family dependants. This motive is no doubt to be found among fathers of families in all classes, but differing in character and urgency. There is first the case of the "bread-winner" who does not want his wife and children to be left destitute by the accident of his death. He has his mind fixed on a modest sum, and his most usual form of saving is by life or accident insurance or investment in some benevolent society. A progressive Inheritance Tax, with rates on a similar pattern to those of the existing Death Duties, would hardly touch his modest provision, and its effect on his actions may be taken as entirely negligible.

At the other end of the scale, however, there is the ambitious parent, who has made his own way in the world or is making it, and who wishes to "found a family," and to secure for his descendants as well as for himself the maximum of economic power and social distinction by accumulating a large fortune.

¹ Cp. Pigou, *Economics of Welfare*, and those quoted by him, p. 674. He quotes Carver, Carnegie, Rathenau, Irving Fisher in the same sense.

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A moderately high Death Duty or Gifts and Inheritance Tax, with a not very steep progression (as in our present Estate Duty), that does not inevitably frustrate their hopes for their descendants, is very unlikely, I think, to discourage this ambitious type from accumulating, and may possibly stimulate greater economy in expenditure—though not greater enterprise, since this is probably already at a maximum.

On the other hand, what will be the effect of a very steeply graded tax that virtually prevents any large succession passing to heirs? In such a case, any hopes of founding a rich family on the solid basis of a large inheritance is clearly doomed to disappointment. Here, it may be argued, there must be discouragement to enterprise and saving. But I do not believe that the man who is ambitious for his family will give up his ambition so easily, especially as he is sure to be ambitious for himself also. He will, in many cases, I think, continue to accumulate with as much energy as before in order to satisfy his own pleasure in the achievement of power and fame, and will at the same time take every opportunity open to him—other than large gifts and bequests, which are *ex hypothesi* unavailing, to assure his descendants' position in the business world. In other cases, if he has not started to realise his ambitions when the tax is imposed, he may quite possibly divert them into non-economic but possibly no less useful channels.

Actually, "self-made men" do not as a rule seem nearly so anxious to leave their children large inheritances, as those who have themselves inherited the bulk of their fortunes.¹ I suspect that the "self-made man" despises the large inheritor just as much as the latter despises him. At any rate it is an interesting sidelight on the psychological effects of Inheritance taxation that Carnegie and Leverhulme were strong advocates of the Death Duties.

Finally we have to consider the case of the less ambitious

¹ Pigou, *Economics of Welfare*, p. 674, note, quotes Irving Fisher: "The ordinary normal self-made American millionaire is rather disposed, I believe, to look on the inheritance of his millions by his children with some misgiving."

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parent, who is concerned for the comfort and social status of his children rather than for their fame and active economic power, who wishes to endow them with sufficient property to secure for them the standard of life to which they have been accustomed and to render them free from the fear of poverty. This type wants security rather than economic prowess. That desire is probably the chief incentive which leads middle-class and well-to-do parents to preserve and increase their capital by saving out of income, though it is probably not important as a motive force for enterprise and active accumulation. "It is a quietness to a man's mind to live upon his own and to know his heir certain," was the feeling of the yeoman freeholder,¹ and it is this quietness of mind which the majority of those, who engage in business and the professions without any great economic ambitions, desire to achieve by saving. In the case of the large inheritor, also, who could in fact part with a considerable portion of his property without bringing his heirs within reach of poverty, property is often maintained and added to from the feeling that, even if his inheritance was not settled by deed or testament, it was meant as a trust for future descendants.

The effect of the taxation of gifts and inheritances on the operation of these motives would seem to depend largely on the way in which the tax was graded. As in the previous case, it does not seem likely that savings would be discouraged by a moderately heavy tax, with a moderate steepness of progression, on the lines of our present Estate Duty. Indeed, it might well lead to more saving on the part of those who have in mind a certain definite provision and standard of life for their children, or who wish to pass on their own inheritance intact.

§ 16. But now suppose a tax graded with an eye to abolishing large inheritances, progressing mildly up to a certain figure, and then much more steeply, so as practically to prevent inheritances in excess of that figure. Such a tax would be a modified application of Mill's suggestion that a definite limit should be set to the amount which anyone may inherit. I have

¹ Quoted in Tawney, *Acquisitive Society*.

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already argued that it would not be likely to turn the really ambitious accumulator into an idler and spendthrift, and that he will try to satisfy his ambitions for his children in other ways. But the case is different with those whose economic ambitions are confined to the desire to endow their children with security or to pass on to them a property as large as or a little larger than that which they inherited. If the tax prescribes an actual limit to the size of an individual inheritance, then the effect on their actions will depend largely on whether or not the property which they hoped and expected to leave to their heirs exceeds the limit prescribed. Where it does exceed that limit, the effect of the tax is bound to be discouraging. The fact that the limit is not on disposable estate, but on an individual inheritance, cannot in this case make much difference. If a man has preserved or accumulated an estate of £100,000 with the main object of leaving it to his three children, and a tax is imposed which virtually limits any one inheritance to £20,000, he will not be consoled, or stimulated in his desire to preserve the property, by the knowledge that he can escape the full rigours of the tax by bequeathing £40,000 to charities or among his poor relations. In such a case, I think, he would be very likely to entertain the idea of treating himself and his children to an expensive tour round the world or some similar form of entertainment, as giving better value for the money.

Obviously the higher the limit prescribed by the tax, the smaller the number of such persons who are likely to be discouraged from saving, and *vice-versa*. But there does not seem to be much point in imposing a very high limit, that would only very rarely be exceeded in the absence of such restriction.¹

§ 17. On the other hand, the discouraging effects of a moderate limit, enabling ample provision to be made even for those incapacitated from earning, such as the £20,000 given in the above example, would gradually wear off in the course of a generation or so. The discouragement to saving resulting from such a limitation would take effect chiefly among large in-

¹ Except in so far as it sets a precedent which may be improved on. Cp. Dalton, *Inequality of Incomes*, p. 341.

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heritors, who were preserving or increasing their inheritances from a sense of duty to their descendants. But since the tax would gradually eliminate the large inheritor, the class most likely to be discouraged by it would become less and less important as time went on. For example, the father of a family of less than five, who inherited £100,000, *before* inheritances were limited to £20,000, would certainly be discouraged from preserving his inheritance intact when such a limitation was imposed. But when his heir inherits £20,000, the latter will know that, if he has more than one child, he will have to work and save up in order to leave his children the maximum that the tax allows, and the same amount as he himself inherited. Possibly if the tax were removed, he might work harder and save more in an attempt to restore the fallen grandeur of his family. But I have already argued that a man who is ambitious rather than anxious for his family is usually ambitious for his own sake also, and is likely to achieve what he can for the sake of achievement, undeterred by the frustration of any ulterior hope, that may have acted originally as an auxiliary motive.

§ 18. The net effect of my conclusions in the preceding analysis is as follows. The tax under consideration was, it will be remembered, a progressive tax falling equally on gifts and inheritances, and it was assumed that the tax could not be evaded. If such a tax were designed so as to progress not much more rapidly than our present Estate Duty rates, I think it exceedingly unlikely that it would ordinarily discourage any rational person from working or saving.¹ And it is not the

¹ It must be recognised, however, that certain forms of saving may be discouraged by the Death Duties—namely long-term investments for other than purely economic motives. In this consideration, for example, lay the germ of truth in the common complaint that the duties (in their original form, at least) deterred agricultural landowners from afforestation. If capital invested in afforestation yielded as high a rate of return as other “lock-up” investments involving similar risk, there would be no reason why Death Duties should be particularly discouraging. But suppose it yields only 2 per cent. compound interest, as against say 5 per cent. obtainable from other investments, and that landowners have replanted their woodlands partly from reasons of sentiment or a

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function of the economist to foretell what people may do from irrational motives in pique or panic. Taking into account its effects on those about to inherit as well as on those about to dispose of gifts and inheritances, I think that, on balance, it would to some extent encourage both work and saving.

If, on the other hand, the tax were much more steeply graded so as to make it impossible or almost impossible to inherit more than a certain sum, it does seem highly probable that it would, in certain cases, deter people from saving to a marked extent, and to a less extent from working, or, in other words, encourage them to consume a good deal more of their surplus than they would otherwise do, and to retire from economic activities rather earlier in life. But this discouragement of work and saving would affect a smaller and smaller proportion of the people as time went on, and would be increasingly offset by the encouragement to work and save given to the younger generation of the leisured classes by the prospect of reduced gifts and inheritances.

Neither sort of tax would be likely to discourage work and saving on the part of those with no dependants to provide for, or those who were accumulating from the love of power and feeling of feudal responsibility. Then, if by reason of a Death Duty that may be imposed an unknown number of times before the trees grow up, the profitableness of such an investment is still further reduced, non-economic motives may cease to outweigh the advantages of other investments giving a higher yield and a more immediate return.

In fact, however, since the Finance Act of 1910 (§ 61 (5)), the owner of woodland has been in a favoured position as regards Estate Duty. The value of growing timber is not taken into account in estimating the value of his land for the purposes of the duty, but the latter is payable (at the rate at which it was due on the rest of the estate) in respect of money received from the sale of felled timber during the lifetime of the heir.

Possibly, in the circumstances of the time, an allowance of this kind may be expedient, but it is in the nature of a subsidy, and the fact remains that Death Duties *per se* are not the reason why land-owners prefer to put their spare cash into stocks and shares rather than trees.

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achievement. And these are not a negligible proportion of the saving population.

In general, it seems that up to a certain point, as regards rate of tax and steepness of progression, an inheritance tax will act, in some degree, as an inducement to earn more or to retrench personal expenditure. The point at which the rate of tax becomes so high or the progression so steep that saving is discouraged, cannot of course be foretold; but I should judge that it would not nearly be reached by a tax graded at the same rate of progression as our present Estate Duty. But that is only a matter of opinion on which, at present, there can be no conclusive evidence.

§ 19. Another theoretical problem, with some practical significance, is to consider the relative advantages and disadvantages from the point of view of productivity, of a yearly tax on incomes from property and of a Death Duty or Inheritance Tax, graded in such a way that both have approximately the same effect on the distribution of private incomes and property. A detailed analysis of the problem is beyond our scope in this book. But it is interesting to recall the opinion of the Colwyn Committee (Majority Report) that the present Estate Duty "is decidedly less damaging to saving and enterprise" than a yearly tax bringing in the same revenue would be, "if that tax were confined to income corresponding (as closely as possible) with the capital on which the Estate Duty is paid," and graduated with similar steepness.¹

"Under the yearly tax," say the Committee, "those who lived wholly or mainly on investment income might, on balance, be stimulated (and in some cases even physically compelled) to effect some extra economies. On the other hand, the differentiation against income from savings as compared with earned income would be more obvious in a yearly tax than in a tax deferred till death. It seems probable, therefore, that to some extent it would tell against saving out of earned income. In the larger estates the burden would be a serious addition to the Income Tax and Super-tax, and would be more depressing

¹ P. 194, par. 534.

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than the prospect of Estate Duty at the uncertain date of death."

§ 20. Many reasons can be given for desiring that progressive taxation should differentiate, so far as practicable, against incomes and property not gained as the result of personal economic services. And a Death Duty or a tax on Inheritances and Gifts is more in accordance with this principle than a tax on all property irrespective of whether "saved" or inherited. But, in the first place, we have got to rid our minds of the idea that all property acquired otherwise than by inheritance and gift represents an increase in the capital goods of the community brought about by the action of the acquirer.¹ It is clear that much private accumulation is neither the result nor the cause of improvements in productivity, but is merely the outcome of a redistribution of claims to income from existing capital goods or a reshuffling of property values, due to external and fortuitous causes. "Many of the largest fortunes," said Marshall, "are made by speculation rather than by truly constructive work; and much of this speculation is associated with anti-social strategy."² Clearly there is no point in encouraging this form of "enterprise and saving," and a tax that differentiates consciously or unconsciously in its favour has in this particular respect no special merit.

Nevertheless the distinction between "earned" and "unearned" property remains important, even if the dividing line is in practice often obscure.

In the second place, practical considerations of revenue and administration are of the greatest importance. It would, for example, certainly be impracticable as well as theoretically undesirable to replace the whole of our existing Income and

¹ Rathenau, *In Days to Come* (trans. E. & C. Paul, pub. 1915), thinks large fortunes acquired in a lifetime are due either to speculation or the acquisition of a monopoly (in the widest sense). "In view of the brevity of human life, a moderate competence is the utmost that can be saved out of the regular income from labour. Erroneous is the popular notion that anyone can grow wealthy simply in virtue of thrift" (p. 111).

² Marshall, *Principles*, p. 719.

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Super-taxes by a Death Duty or Inheritance Tax. In order to raise by the latter method the same revenue that results from the former taxes, when Income Tax is 5s. in the £, you would probably have to try to confiscate all estates passing at death or by gifts *inter vivos* in excess of about £5,000. No power on earth could stop the wholesale evasion that would ensue, and most well-to-do fathers beyond middle age would cease to save. Obviously, as a main source of revenue in the modern state, no form of Death Duty has the same possibilities as a general Income Tax. But, as a means of influencing distribution without adversely affecting productivity, Inheritance Taxation has not yet found the limit of its utility.¹ The practical problem of evasion, rather than the theoretical problem of discouragement to saving, remains, as Sidgwick predicted, the great stumbling-block.²

¹ Cp. *Minority Report*, Colwyn Committee, par. 256. "In our view the death duties are a most valuable source of revenue of which by no means adequate use has already been made." I think the Death Duties could be reformed and extended so as to raise at least £30 or £40 millions more than they do now without damage to productivity or too great danger of evasion.

² "The limits of taxation on inheritances will be practically determined for the financier rather by the danger of evasion through *donationes inter vivos* than by the danger of checking industry and thrift." Sidgwick, *op. cit.*, p. 580.

CHAPTER X

THE PROBLEM OF EVASION—THE TAXATION OF GIFTS *INTER VIVOS*

“We know that the astuteness of lawyers and the vigilant care for personal interests continually are at work to defeat and escape the operation of the law—and this with such extraordinary success that, although there has been an immense increase in the personal property of the country, such increase is scarcely traceable in the tables of your Legacy Duty . . .”—MR. GLADSTONE on the Succession Duty Bill, 1853.¹

§ 1. EVASION of a tax is primarily a technical problem for the administrator and the lawyer. But its special significance in the case of the Death Duties makes it a problem which the statesman and the economist cannot afford to neglect. Methods of evasion may be divided into three categories—those that are strictly legal, those that are not illegal because the law was not sufficiently well drafted or the executive sufficiently powerful to make them so, and those that are definitely illegal. The first two kinds of evasion are usually the most important.

At the present time, a man of property can legally enable his executors to avoid paying the British Death Duties in any of the following ways. He can invest it in real estate outside Great Britain; he can leave his native land, acquire a foreign domicile, and invest his property in Bearer Securities or in the registered stocks of companies registered abroad; he can give it to his family *at any period* by way of marriage settlement; he can give it without reservation before three years from the date of

¹ Quoted by Soward and Willun (*Taxation of Capital* [pub. 1919]), who comment: “Mr. Gladstone’s remarks are as applicable to the Estate Duty to-day as they were when spoken of the Legacy Duty.” The authors, with intimate official knowledge of the subject, give an excellent account of property exempted from and evading the Death Duties. pp. 258ff.

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his death and, as regards charitable gifts, before one year from death. The last loophole of gifts is obviously by far the most important. But the first two alternatives are not negligible and are, from the point of view of British industry, very undesirable; for evidently the effect of these loopholes is that the Duty differentiates against savings invested in Great Britain. Equally evidently these exemptions were made not from choice but from necessity or for convenience of administration. It is certainly a bad plan to say you will tax what you cannot tax; but it would be interesting to know if all possibilities of catching these foreign investments have been fully explored. It seems conceivable that they have not, and the difficulties do not, to a layman, seem insuperable.¹

§ 2. Among the means by which one may cheat the purpose of the law in a legal manner, the chief is the private company. In the preface to his admirable treatise on Private Companies, Sir F. Palmer declares that he sets out to show "why—in the words of a Chancellor of the Exchequer—everybody, from a peer downwards, converts himself into a private company." One of the reasons given is that "conversion affords considerable facilities for the working out of plans for avoiding or minimising as far as practicable the heavy duties imposed by the Finance Acts of 1894 and 1910. An owner may convert his business and distribute shares, and yet, *while retaining control and a large income*, can avoid in a great measure the Death Duties. Moreover, the shares of a deceased member, which his executors are bound to sell to the continuing members *at what may be a comparatively low figure*, are for the purposes of death duties only valued at that figure."²

By the Companies (Consolidation) Act, 1908, a private company need not have more than two members, and it is quite un-

¹ Bearer securities lodged in foreign banks would certainly present some difficulty. But, in general, all states which impose a Death Duty on property within their territory should be able to give information as to the property of British nationals assessed by them. And there is no reason why both country of origin and of domicile should not take their share of such property.

² Palmer, *Private Companies* (Topham Edn., 1918). My italics.

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necessary that both should have large holdings. Nor need the actual beneficiaries' names appear in the register held at Somerset House, since their shares can be entered in the names of trustees. Complete power over the private company can be vested in the former owner as "governing director," who has power to act as he likes, resign when he likes, appoint as directors whom he likes, and to settle the dividends and directors' fees, or in other words his own "salary" as governing director. Nor need the disposal of the profits come under public scrutiny, since there is no obligation to file or publish accounts or balance sheets.¹

This admirable method of artificially reducing the value of one's property, and treating oneself to a salary, has only one drawback—namely, the cost of registering the company, and the stamp duty on transfers of shares. But, says Palmer, there are various expedients legitimately available which assist materially in minimising the expenses." In any case the stamp duties are clearly not as high as the avoided death duties (and perhaps Super-tax) would be.

Clearly the facilities given to private companies by Company law were never intended by legislators to be used for such purposes. And Mr. Churchill, in his 1925 Budget, expressed his intention of looking into the matter. But it does not appear that anything really effective has yet been done.² Yet it seems perfectly practicable to require that every private company should furnish to the officials concerned full particulars con-

¹ The Profit and Loss Accounts are, however, open to scrutiny by the Inland Revenue authorities for Income Tax purposes.

² By means of a private company it used to be possible to avoid Super-tax by causing the company to pile up reserves instead of paying out all dividends as income. By Section 31 of Finance Act, 1927, however, the Commissioners of Inland Revenue are now empowered to treat profits put to reserve as private income for Super-tax purposes, where in their opinion the proportion of profits not distributed in dividends is unreasonably high. The objection to this regulation is that, while it does not tackle effectively the problem of evasion by Private Companies, it is liable to cause perfectly genuine trading concerns to reduce their corporate savings and enlarge their dividends.

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cerning the nature of the company and its operations. The Commissioners of Inland Revenue could then be instructed to treat private family companies that had no *bona fide* trading function as shams for the purposes of taxation. There does not, indeed, seem to be any adequate reason why registration as private companies should not be refused to such concerns.

§ 3. With so many loopholes for legal evasion illegal evasion becomes unimportant. But if the former were stopped up, the latter might well become a greater problem. In the case of cash in the house or household goods, it is evident that there must often be opportunities of secretly removing part of an estate before the probate valuer comes along. But this method of evasion is usually likely to be unimportant in the case of large estates, of which no considerable part can conveniently be kept in cash or furniture. But if there were a considerable incentive to do so, wealthy persons might revert to the practice of earlier times in treating plate and jewels as the most desirable and secure investment. Bearer bonds seem to offer possibly greater advantages, since they yield a money income, but their possession might be traced through coupon dealers.¹

It is a common custom among well-to-do parents to invest part of their property in the joint names of themselves and their children. If the parent retains a beneficial interest in such investments, they are legally liable to Death Duties. The surviving joint-owner can, however, merely on proof of death, obtain possession of the shares from the bank or company holding them, and the latter is not required to notify the tax officials, nor is it liable to pay the tax. "All that is necessary to meet these cases," say Soward and Willun, is that the bank, agency, or company (holding the assets) should be required to call for a certificate from Inland Revenue that Estate Duty has been paid on them.

¹ See remarks in Note by Board of Inland Revenue to Colwyn Committee on Rignano Scheme. App. XXVI to Report, p. 177 (lines 9-13).

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Lastly, some illegal evasion takes place owing to under-statement of assets or over-statement of debts by executors or administrators. It appears that, in Scotland, the latter are entitled to administer only those assets named in the probate inventory. But, in England, an executor may recover any asset of the deceased, whether included in his estimate for probate or not, provided he can show that sufficient duty has been paid to cover that asset alone. Thus, "he can recover assets worth many times over the amount on which Estate Duty has been paid."¹

§ 4. I have left till the last for consideration the most difficult and most important problem presented by perfectly legal and straightforward gifts between the living. Those made within three years of death are now liable to Estate Duty, with two main exceptions—gifts for public or charitable purposes made more than twelve months before death; and gifts made in consideration of marriage, which are exempt at any time. There is, no doubt, much to be said for a differentiation in favour of charitable and public gifts; and I have previously suggested that this differentiation might be extended to bequests by will for the same purpose. But no economic reason can be urged in favour of the complete exemption of marriage settlements. It would be a desirable and immediately practicable reform to abolish this exemption.

It is, however, quite clear that the Estate Duty, with its present three-year period of liability, does not, in any case, catch more than a small minority of gifts between the living, and if the rates were raised it would probably catch a still smaller proportion. I have already pointed out that this is one of the chief defects of the Duty, not merely as a means of raising revenue, but also as a means of reducing inequalities of gratuitous property—particularly as a much larger proportion of large than of small estates escapes in this way. The Estate Duty now falls yearly on some £6,000,000 of gifts made within the statutory period, and about 60 per cent. of this sum is included in estates of over £50,000.¹ The total gifts made

¹ Soward and Willun, *op. cit.*, pp. 258ff.

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during life cannot now be ascertained even approximately, but we know what it must exceed, by referring to the figures of gifts taxed for Stamp Duty. Generally speaking, all gifts of real property and registered stocks and shares are subject to Stamp Duty, with the one important exception of British Government stocks. Here again marriage settlements are not counted as gifts and are taxed at a specially low rate. The table on page 247 shows the estimated value of property conveyed as dispositions *inter vivos* during recent years; the estimates, being derived from figures of Stamp Duty paid, are only approximate.

These figures of gifts paying Stamp Duty form an unknown proportion of the total gifts. The exemption of Government stocks is no doubt the chief reason why the post-war totals in the table show such a small increase over the *pre-war* totals. But one must also remember that property values, particularly of the fixed interest stocks likely to form a large portion of settlement property, did not increase in proportion to prices. Apart from that, gifts of property, which do not require some official register of transfer, are exempt. Thus there is no record of gifts of cash, bearer bonds, household goods, and so on. The grand total of gifts between the living is to-day not likely to be less than £60,000,000 to £80,000,000 a year and is possibly very much more. Of this, an unknown fraction—probably not as much as a tenth—is given for public and charitable pur-

¹ The figures for 1925-6 (Great Britain) were :

NET CAPITAL VALUE PAYING ESTATE DUTY

	Total. £ millions.	Gifts <i>inter vivos</i> . £ millions.	Gifts % of Total.
Estates—£100 to £50,000 .	277.78	2.345	0.85%
Estates over £50,000 .	178.61	3.312	1.85%
All estates over £100 .	456.39	5.657	1.24%

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poses.¹ It is highly probable that, on the average, persons with large estates, of say over £50,000, give away to heirs and others during their lifetime not less than a quarter of their property. Many conveyancing solicitors will probably consider this a serious under-statement, since the evasion of the Death Duties seems now to be one of their principal functions.

§ 5. To give is usually considered a charitable act deserving of praise. Even gifts to children which anticipate their inheritances are more altruistic than bequests by will when death forces the owner to part with his property, and have the practical advantage that they come to the heirs at an earlier age, when assistance is more likely to be required.² No economist wishes to dry up the springs of charity or to force a rich man

¹ For the proportion of property passing at death bequeathed for charitable purposes, see Chapter IV—2.

² See remarks in Chapters VIII and IX on superior advantages of gifts over bequests at death. Sir Josiah Stamp (in his Presidential Address to British Association, Sec. F., 1926) quotes with approval the following statement by the Whethams (*The Family and the Nation*): "Since the assumption of the responsibility of offspring falls on those of the younger generation whose financial position, even in the upper classes, is usually not yet secure, it should become an increasing habit for the older generation, where they have it, to distribute a substantial part of their property during their life-time. Such a distribution should not excite the animosity of the Chancellor of the Exchequer. . . . Those in the prime of life can make the best use of wealth in the service of the nation. May each generation as they grow older learn to relinquish it in time to watch their successors meet their responsibilities fully."

Stamp says: "There could be no better eugenic or sociological institution than a kind of moving annuity which should pass from generation to generation, not at the death of each person, but from him to his children at a point when his personal need for it has become less and when his son's need for it has become greatest" (*Ec. Jnl.*, Sept., 1926, p. 372). I have previously suggested that a retention of the Estate Duty at death along with a Gifts and Inheritance Tax would give some encouragement to gifts without leaving their inequality of distribution unchecked. But it would also be feasible to give special rebates to a new type of settlement, in which property is left, for example, to A till he reaches the age of, say, fifty years, then to B till the same age and so on. I have never yet heard of such a settlement being made.

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GIFTS *INTER VIVOS* PAYING STAMP DUTY—GREAT BRITAIN.
£ millions.

	1919-20	1920-1	1921-2	1922-3	1923-4	1924-5	1925-6
Rate of Estate Duty on Estate of £100,000	14% †	14%	14%	14%	14%	14%	20% ‡
CONVEYANCES AND TRANSFERS operating as GIFTS <i>inter vivos</i>		16.61	12.39	11.24	14.74	15.41	15.09
SETTLEMENTS * (not included in above and not for a <i>bona fide</i> pecuniary consideration) .	28.5	26.8	23.3	22.03	25.5	23.70	29.79
TOTAL Gifts and Settlements		43.4	35.7	33.3	40.25	39.1	44.9
Year			£ millions. 1910-11	1911-12	1912-13	1913-14	1914-15
Rate of Estate Duty on Estate of £100,000			9% §	9%	9%	9%	10%
CONVEYANCES AND TRANSFERS operating as GIFTS <i>inter vivos</i>			7.40 23.2	9.30 21.8	10.61 21.8	9.68 25.7	10.74 18.9
SETTLEMENTS * (see above)							
TOTAL Gifts and Settlements			30.6	31.1	32.4	35.4	29.6

NOTE.—Transfers of Bank of England Stock and Colonial Government Stocks are charged to Stamp Duty at a fixed charge, and the bulk of these do not come into the above figures. More important—transfers of British Government Stock are exempt.

* I.e. chiefly Marriage Settlements.

† In case of deaths after June, 1925.

‡ In case of deaths after July, 1919.

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to retain his property till the last possible moment. But it is clearly anomalous, as well as inequitable, to impose a heavy tax on property passing at death (with the double object of raising revenue and reducing gratuitous inequality) and not to check the obvious alternative method by which the same inequality may be perpetuated, and which men with foresight and the luck of a long life are certain to exploit.

It has sometimes been held that "the reluctance of property owners to part with their own, even to their nearest and dearest," is an effective check on gifts *inter vivos*.¹ But it clearly is not so in present-day Britain, and there is little reason for this reluctance, when by the mechanism of the private company a man can give away property and yet retain control of it and receive the bulk of the income from it. And if private companies were treated as is suggested above, so as to make this method more difficult if not impossible, it is still possible, particularly as between parents and children, to give property on the honourable understanding—not, of course, legally enforceable or supported by traceable documentary evidence—that an agreed part of the income, and a measure of control of the principal, is to be retained by the donor for life.

I repeat what I said in the last chapter, that an effective and equitable system of Inheritance Taxation of a drastic character must involve some taxation of gifts, more extensive than that in force under our present Death Duties.

§ 6. There are two suggested lines of reform. The first is to extend the period before death during which gifts are liable, aggregating the latter with the estate left at death in assessing Estate Duty. The second is to impose progressive taxation on all large gifts at the time when they are made.

The theoretical objection to the first proposal is that it is an unsatisfactory compromise, and inequitable in the sense that the liability of gifts to Estate Duty will be largely a matter of luck. The more long-lived persons—and these are on the whole the richer—will be able to hand on a larger proportion of their property during life than those whom death catches at

¹ See Taussig, *Principles*, Vol. II, p. 508.

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an earlier age. Thus those whose parents die young will receive a smaller proportion of the latter's property than those whose equally rich parents live to a ripe old age. Yet, if anything, the needs of the former are likely to be greater than the needs of the latter. Moreover, the parents who die young are likely on the whole to leave less property than those who have their full span of life in which to work and save. Hence to fix an arbitrary period before death during which gifts are liable to duty results to some extent in a fortuitous reduction of the intended rate of progression of the tax. Theoretically it would be a better compromise to decree that all gifts made by a donor *after a certain age* will be liable to tax.

Lastly, one effect of increasing the period during which gifts are liable would be to stimulate larger donations at an earlier period so as to escape liability.

The chief administrative objection to the proposal is that gifts within three years of death are difficult enough to trace, and that any considerable extension of the period would render the task of efficient administration almost insuperable.¹

But there is a second practical objection. Let us suppose that the period were extended to ten or fifteen years before death. Under the present system, gifts traced as made during that period would be added to the estate left at death, and the whole taxed for Estate Duty at the appropriate rate. But such gifts might considerably exceed the estate left at death, in some cases; and the duty payable on the whole might exceed the assets retained by the deceased. In such cases, the present practice of making executors liable for Estate Duty would clearly be impracticable. Yet the alternative of requiring the recipients of the gifts to pay their share of the duty many years after the gifts had been received might well present insuperable difficulties, particularly if the duty was high and the donees had

¹ See Colwyn Committee, *Maj. Rept.*, para. 1022. "To increase the three-year period would be of doubtful assistance, as it would increase the difficulty already experienced by executors in tracing dutiable gifts. Moreover, it might tend to the wider adoption of methods which do not depend for their success on the length of the testator's life."

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previously squandered the major portion of their gifts. Such cases would no doubt be exceptional. But there might be many other cases, in which the bulk of the property retained till death was bequeathed to other persons than those who had received the gifts; yet, according to present practice, the former would in effect bear the tax payable in respect of gifts received by others.

§ 7. The second more drastic proposal—the taxation of all large gifts during the life-time of the donor—has obvious theoretical advantages. But it certainly presents practical problems which may well cause anxiety to administrators, who have a very proper conservatism as regards methods of taxation. The chief practical difficulties may be briefly considered under three heads:

- (1) What check is there on concealment of gifts?
- (2) Who is to be responsible for paying the tax and when?
- (3) Are the rates of tax to be graded according to the size of the individual gift or according to the aggregate received over a period, or according to some other plan?

(1) CHECK ON CONCEALMENT OF GIFTS.

§ 8. Gifts made by straightforward transfers of real estate and of registered stocks and shares cannot be concealed. With the exception of British Government stock (the inclusion of which would present no administrative difficulties) they are already taxed for Stamp Duty, and the Gifts Tax could be imposed and paid when the Stamp Duty was paid, or in lieu of Stamp Duty. Gifts by way of investments in the joint names of the purchaser of the investment and the recipient of the income could also be traced, at any rate on the death of the donor.

But there remain a multitude of openings for gifts that can be concealed, the chief of which we have previously described. Clearly the tax collectors would have to call for a declaration of gifts by the prospective taxpayers. But the problem remains how to ensure that such a declaration is sufficiently reliable.

Persons with incomes over £2,000 a year are already required to make a full return of income for Super-tax. If the Gifts Tax

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were confined to such persons, a return of gifts received (in excess of, say, £500), and of the amount of Gifts Tax paid, if any, might be demanded on the same form.

The first check on dishonest statement would be a heavy penalty on concealment of gifts. The second check would be a record of transfers of registered property, which might be required, as suggested above, to pay the tax at time of transfer. The third check would be the fact that an unexplained and exceptional increase or decrease in income as between one year and another would arouse suspicions and lead to investigation.¹ Lastly, if we also retain the present arrangement whereby gifts made within three years of death have to be included in the executors' affidavit for Estate Duty, the chance that the donor might die within three years after making a gift—which might in this case be traced from another source—would act as a check on its concealment in the donee's declaration. An increase of the statutory period to five years is to be urged on the same grounds.

(2) WHO IS TO PAY AND WHEN?

§ 9. Clearly the donee would have to be responsible for paying the Gifts Tax. In the case of a settlement on A for life with remainder to B and so on, A, the first beneficiary, would naturally be considered the donee responsible for Gifts Tax, since B would normally be liable for Legacy or Succession Duty. Whenever possible the tax should be deducted *before* the gift is received. It has been suggested that this is possible in the case of all gifts and settlements now paying Stamp Duty, as well as in the case of transfers of Government securities. In other cases, it would hardly be possible. It is suggested that in these other cases, the Gifts Tax should be assessed at the end of each financial year when Income and Super-tax are assessed.

¹ For an argument against this check, however, see the Inland Revenue's Memo on the Rignano Scheme, Appendix XXVI to Colwyn Committee Report. "These enquiries . . . might drive the trouble underground and lead to further falsification of Income Tax Returns, with consequent reactions on the yield of Income Tax and Super-tax."

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It is probably better that the tax should be a capital—rather than an income—tax, because otherwise quite large gifts of property not yielding a definite money income would escape. In certain cases, of course, provision for payment by instalments would have to be made.

(3) METHOD OF PROGRESSION.

§ 10. I have indicated above that the Gifts Tax might, at first trial at any rate, be confined to Super-tax payers, who are now called upon to declare their full incomes. This class now numbers about 100,000 persons, not an overwhelming number for our remarkably efficient administration to deal with in some detail. The adoption of such a proposal would mean that there would be a rough progression of the tax according to total income, in addition to a more refined progression according to the amount of gifts received. As regards the latter method of progression, it is clearly desirable that the tax should vary, not according to the size of individual gifts, but according to *the total property received by way of gift*. If this were not the case, it would be simple for large gifts to avoid a high rate of tax, by making a number of smaller gifts over a period. But there is no reason why—if the tax is practicable for individual gifts—it should not also be practicable when progressive according to the aggregate of gifts. Once you have a record of Gifts Tax assessments, to ascertain the total of a man's previous gifts, in order to decide the rate of tax on a new gift, is merely a matter of good filing and indexing.¹ Thus suppose the tax is graded so as to levy 10 per cent. when gifts amount to £10,000 and 20 per cent. when they amount to £30,000. A man, who received his first gift of £10,000 in 1930 and a second gift of £20,000 in 1935, would pay a tax of £1,000 (10 per cent. of £10,000) in 1930 and another tax of £5,000 in 1935 (20 per cent. of £30,000 *minus* the previous tax of £1,000).

A Gifts Tax of the nature outlined could evidently be related to a progressive tax on inheritances of the same character, so

¹ A sort of ledger account would be kept for each taxpayer—the balances being continually carried forward.

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that the rates payable in respect of inheritances were partly determined by the rates payable in respect of gifts, and *vice-versa*. In this way, for example, a man who received £30,000 by way of gifts and £70,000 by way of bequests would pay the same total tax as the man who received £70,000 by gifts and £30,000 by inheritance.

Gift Taxes in combination with Inheritance Taxes have been tried with indifferent success in some of the United States; and in France, where gifts *inter vivos* are supposed to be taken into account in assessing the *légitime* of an estate, taxes on *donations* accompany taxes on *successions*. In neither case is there the British standard of efficiency in tax collection, so that one cannot draw from such examples inferences applicable to Britain. The only competent judges of whether or not a Gifts Tax, such as that suggested, is practicable in Britain, are the Inland Revenue officials;¹ and even their opinion is not final.

¹ The latter have made remarks pertinent to the subject in Appendices XXVI and XXVII to the Colwyn Committee Report. But no definite opinion is given on this particular subject.

CHAPTER XI

RECENT PROPOSALS FOR THE REFORM AND EXTENSION OF THE DEATH DUTIES

§ 1. VARIOUS proposals have been made in recent years for the reform and extension of the Death Duties, with the double object of effecting by this instrument both an increase in revenue and a more effective reduction of the inequality of property, without unduly diminishing the incentive to accumulation. They are based primarily on the proposals of Professor Eugenio Rignano. Rignano has clothed his proposals in various forms, intended to be acceptable in different contexts. In the most recent English exposition of his ideas,¹ he puts forward two alternative schemes—a “maximum” and a “minimum project.” The “maximum project” is intended as a socialistic measure for the gradual transference of land and industrial property to the State or to organisations under public control. The “minimum project” is intended rather as a fiscal measure, more suitable, in Rignano’s view, to English and American tastes.

With the desirability or demerits of the ultimate intention of Rignano’s “maximum” programme we need not here concern ourselves, since the fiscal implement proposed need not necessarily be used as more than a means of raising revenue for whatever purpose that revenue may be required. It involves, however, the introduction of two new principles into a system of Death Duties. The first is that a distinction should be made between that part of a man’s estate which he himself accumulated and that part which he inherited, and that Death Duties should differentiate in favour of the former. The second new principle—introduced in the “maximum” project—is that

¹ *The Social Significance of the Death Duties*, J. C. Stamp and Rignano (1926). Rignano’s scheme was previously introduced to the English public by Hugh Dalton, *Inequality of Incomes* (1919). Pigou also refers to it in *Economics of Welfare*.

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taxation should be graduated according to the number of times that the inherited property has been passed on, till eventually the tax becomes 100 per cent.¹ In the simplest and most drastic form of the scheme, it is proposed to abolish an inheritance in the third generation. For this purpose, each estate is to be divided into three sections, that which the deceased did not inherit, that which he inherited as the result of his immediate predecessor's accumulation, and that which came to him as the result of accumulation two generations back. On the first portion (if any) the tax would be no higher than it is to-day; on the second portion it would be, say, 50 per cent., and on the third portion 100 per cent. Thus nothing would be capable of inheritance from beyond the third generation.

§ 2. If we assume for the moment that the distinction between the three portions of an estate will be sufficiently clear in the large majority of cases, and that the administrator will be able to trace all gifts and inheritances—then the Rignano scheme has one great economic advantage over existing methods of inheritance taxation. It cannot be held to discourage saving. Indeed, Rignano's claim that it would encourage accumulation seems well founded. For those desirous of passing on property to their children would know that every £ they saved would have more value for that purpose than the £ of their own inherited property, and the higher, comparatively, the duty on the latter, the greater the relative utility of their savings. It is true that their savings would be greatly diminished by the time they reached their grandchildren and annihilated by the time the great-grandchildren came to inherit. But, in the first place, it is reasonable to suppose that a man is more interested in his immediate than in his more distant descendants,² and, in the second place, in so far as he is inter-

¹ I have said Rignano introduces *two* new principles; but in effect these are merely different aspects of the same principle, which Rignano calls "progression in time."

² "I am convinced that the mental horizon, which is so powerful an agent in business calculations during life, which reduces the present value of a reversion over fifty years hence to a negligible figure, is even more restricted for events after death. The fate of

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ested in the latter, the Rignano scheme would provide an added incentive to him to bring up his children as earners rather than inheritors.¹

§ 3. Certainly, on the previous assumption of perfect administrability, a tax on the Rignano system would be more encouraging to accumulation, or, if you please, less encouraging to decumulation, than a non-differentiating tax, progressive according to the whole estate passing or according to benefits received by inheritors, and graded as steeply in its own way so as to achieve the same revenue. But it would, on the other hand, be less favourable to equality of distribution, and less equitable in its effect on individual heirs. Under the Rignano "maximum" project, the tax is graded neither according to the inheritor's needs nor according to his ability to save. The size of an heir's inheritance would depend almost entirely on what his predecessor had saved, and the extent of the latter's and of his own savings would depend *inter alia* on the size of their respective inheritances. Rignano seems, indeed, to neglect the fact that what a man inherits has considerable influence on his capacity both to earn and save. His "maximum" scheme takes no account of differences in capacity due to this or any other cause. Hence, it is conceivable that, while it would reduce the sum total of inherited property and the *absolute* inequality of its distribution, it might not reduce the *relative* inequality of inheritances.²

one's savings (with the special case of landed estates ruled out) after say thirty or forty years, has but a negligible influence on present effort or production." (Stamp, "Inheritance as Econ. Factor," *E.J.*, Sept., 1906.)

"Everyone had a great interest in his children, and it might be he had a certain interest in his grandchildren; but after that interest became extremely remote, and it was that fact which underlay and supported the Rignano scheme." (W. H. Coates, in discussion on H. C. Scott's paper in *S.J.*, March, 1926.)

¹ In the case of those who have no family dependants, or whose children are already provided for, the Rignano scheme would have as little effect as any other system of Death Duty.

² Suppose for example—what is not impossible—that persons with equal abilities and needs can make equal *proportionate* addi-

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§ 4. In the second place, the Rignano principle differentiates against the children of short-lived parents, since the latter have less time and opportunity to save. Yet it is in such cases that the need for an inheritance is often greatest. Those parents who die young have, in any case, much smaller estates on the average than those who die at a ripe old age. It seems that the Rignano scheme would increase rather than reduce the inequality due to this factor, and in this respect, the tax would be markedly *regressive* in its effects. One has only to look at the figures, given in a previous chapter, of the average estates left by persons dying at different ages, to see that this objection is by no means hypercritical and could not be met adequately by special remission of the tax in "hard cases."

§ 5. When we turn to Rignano's "minimum" project, both the above objections have much less force. This proposal, as adapted to English conditions,¹ is that the present Estate Duty, while remaining progressive according to the total amount of the estate, should also differentiate against the inherited portion of the estate. This would involve dividing the estate into *two* parts—instead of three as in the "maximum" project—"inherited" and "earned." It is suggested, by way of example, that the "earned" portion should be taxed at the present scale of rates, and the inherited portion at double that scale.² Modifications of this proposal have been suggested by Dalton and Henderson among others.³ From the point of view of equity and of effects on distribution, a tax on these lines has clear advantages over that proposed in the "maximum" project, since the differentiation between "inherited" and "earned" pro-

tions to an initial property with equal effort. Then if everyone inherited at the same age, had the same length of life, and the same industry and thrift—and if property values were stable—the distribution of their estates *after* taxation on the Rignano principle would be *relatively* just as unequal as before.

¹ *Social Significance of Death Duties*. Part III, Chap. II.

² *Ibid.*, pp. 127-9.

³ See Dalton, *Inequality of Incomes*, Chap. X, and Evidence before Colwyn Committee on National Debt. H. D. Henderson, *Inheritance and Inequality*.

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perty can be combined with some form of graduation according to capacity to save and according to the benefit received by the heir. Moreover, although Rignano himself seems to consider it less drastic than his first proposal, it could in fact be even more drastic. For example, instead of reaching 100 per cent. in inheritances transmitted from the third generation, this rate could, if desired, be closely approached in the second generation, in the case of very large fortunes.

§ 6. As an incentive to accumulation, the single distinction between inherited and "earned" property seems no less advantageous than the more elaborate distinction suggested in the "maximum" project. In the most extreme case, the knowledge that what he accumulates will never pass beyond his immediate heirs may have a more depressing effect on the accumulator than the knowledge that it will not pass beyond the third generation. On the other hand, it may be argued, that the knowledge that what he inherits will revert to the State on his own death will act as an even sharper spur to fresh acquisition than the prospect of his inheritance reverting on the death of his children.

§ 7. It is interesting to observe that it would be possible, on a purely actuarial basis, to convert a tax on the Rignano principle, into a direct tax on inheritances at the time they were received. The actuarial equivalent of the "maximum" project, in such a case, would be an inheritance tax (in addition to the existing Estate Duty) graded simply according to the age (or expectation of life) of the beneficiary and the age (or expectation of life) of his heirs. Taking thirty years as the mean survival period of a generation, and 4 per cent. as the rate of discount, a tax of 50 per cent. on the second passing of inheritances (i.e. on the death of inheritors) and 100 per cent. on the third passing (i.e. on the death of the original inheritor's heirs) is the equivalent of a tax averaging just under 20 per cent. of inheritances when first received.¹ On the same lines of reckoning,

¹ £100 discounted thirty years ahead at 4 per cent. per ann. = ab. £29.44. £100 discounted sixty years ahead = ab. £8.67. Therefore the actuarial present burden of a tax of 50 per cent. on £100,000 in-

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confiscation of inheritances on the death of the inheritors is equivalent to a tax averaging nearly 30 per cent. when they inherit. The physical effects of the Rignano scheme would, of course, differ from those of its actuarial equivalent in so far as the actual periods of survival would differ from those estimated in individual cases, even if not in the case of the average or total. And the psychological effects would be different in so far as people are not guided by actuarial considerations, even when they ought to be. Nevertheless, from the point of view of the Exchequer, and the immediate value of the tax as a fiscal instrument (and in the case of those desiring to insure against Rignano duties), the preceding calculations have a practical significance.¹ They serve also to illustrate the fact that the Rignano scheme—whether “maximum” or “minimum”—is not so revolutionary as has sometimes been supposed. And we shall see later that, in their practical working, the difference between an inheritance tax levied when the inheritance is received, and one deferred till the inheritor dies, tends to become a difference of degree rather than of principle.

§ 8. Hitherto, we have discussed the merits and demerits of

inheritance passing after thirty years is about £14,720; and of a tax of 100 per cent. on the remainder (£50,000) sixty years hence, is £4,340. Total present burden—£19,060=19 per cent.

¹ (*Social Significance of Death Duties*, pp. 52 and 125.) Rignano proposes that, following the introduction of his proposal, there shall be a census of property, and a certain arbitrary proportion of all estates shall be considered as due to inheritance, and the remainder as due to saving. Any increase in property between date of census and date of death would be considered as due to saving. In this way, the tax would, of course, have a greater immediate revenue effect than if the operation of the tax had to be deferred for a generation, so as to ascertain what was actually inherited and what saved. One can, however, foresee difficulties in the adoption of such a course. During the period which elapsed between the introduction of the new tax and the census of property, there would be every incentive, not only to understatement of assets, but to private decumulation by gifts and increased expenditure. To start off by making a purely hypothetical distinction between “saved” and “inherited” wealth might also lead to a good deal of rather justifiable complaint.

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Rignano's fiscal proposals on the assumption that there is a clear distinction between "earned" and "inherited" property. But, when one comes to try to apply this distinction in practice, it seems anything but clear and definite. "Inherited" property is clearly intended to cover all property received either by inheritance, bequest or gift during life¹; and all such property is to be taxed at a higher rate than property acquired in other ways, which is described by Rignano as "earned" and by others as "saved." But to describe all property acquired otherwise than by gift or inheritance as "earned" or "saved" is rather misleading, if one accepts the usual interpretation of those terms. For a good deal of such property is not the result of the owner's effort or thrift; and not all that is the result of his efforts represents an economic service to the community. There are, for example, landowners "who grow rich in their sleep," when their once agricultural plots are required for city development. Men have been known to make a fortune by gambling at Monte Carlo or on the race-courses. More frequently, speculation in shares and commodities has been the means. And fluctuations in the value of money enrich one class of property owners at the expense of another. As I have written previously, "much private accumulation is neither the result nor the cause of improvements in productivity, but is merely the outcome of a redistribution of claims to income from existing capital goods or a re-shuffling of property values, due to external and fortuitous causes."

It is impossible for a tax on the Rignano principle to distinguish between accumulation of this type and that which represents the result of a genuine economic service. Yet the encouragement to accumulation given by the tax will not be confined to saving proper or to the more beneficial forms of enterprise. Speculation would be likely to receive considerable encouragement in certain cases, if the "maximum" project were put into force, or if, under the "minimum" project, there was a great difference between the rates on

¹ *Social Sig. of Death Duties*, p. 52: "Gifts made and received during lifetime would naturally be treated as hereditary successions."

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"inherited" and on "saved" property. Suppose, for example, that I inherit £50,000 which was inherited by my father before me and that it is due for confiscation at the next passing. If I wished to leave my heirs anything at all I should have to acquire fresh property in some way or another. If I am cautious, industrious, and thrifty by temperament, I shall no doubt leave the inheritance in safe 5 per cents., and put by each year a certain portion of my income. If, on the other hand, the tax is a recent imposition, and I have previously lived a leisured life on a generous scale, I am much more likely to adopt a "neck or nothing" policy and to plunge a large part of the inheritance into some highly speculative venture. If the speculation is a bad one, my children lose no more than they would otherwise do; and, if it is a good speculation, they stand to gain more than if I set to work laboriously to earn and save.¹ Middle-aged inheritors, who had already provided fully for their children's education and upbringing, would be most likely to adopt this attitude.

§ 9. When inheritances have been settled in the hands of a trustee, so that the principal cannot be alienated, it is possible to say definitely at the end of the inheritor's life, "this part of this estate was inherited, this part was not." But four-fifths of inheritances are not settled. Hence, in the absence of any provision making settlements compulsory, it would in the great majority of cases be a practical necessity to adopt Rignano's own suggestion that the distinction between inherited and non-inherited property should be on a purely quantitative basis. Thus, for example, if a man inherits £50,000 and dies leaving £150,000, he must be assumed to have "saved" £100,000. Changes in the value of money or the rate of interest, even changes in the values of certain broad classes of investments, might be compensated by a system of index numbers. But it is obviously impossible to allow for changes in

¹ Cp. Colwyn Committee, *Maj. Rept.*, p. 316: "The owner of inherited property might be drawn to speculative investment, since capital accumulated by speculation would be taxed at the lower rate just as much as any other savings."

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the value of an individual's inheritance that is constantly changing its composition; even the inheritor himself would find it difficult to record its history throughout his life.

There is bound, therefore, to be a large element of luck in the assessments of "earned" and "inherited" property. The man who inherits shares in an oil-field, which turns out to contain no oil, and who, by dint of hard work and saving, just makes good his losses, will be deemed to have saved nothing; while the man who inherits apparently worthless land, which turns out later to contain oil, will be deemed to have saved a great deal. In general, the tax will differentiate in favour of those who are fortunate in their investments and speculations and against those who are unfortunate.

§ 10. Rignano admits that his reform will lead to new forms of injustice, unless stability in the value of money is guaranteed, or its fluctuations compensated by "a carefully devised system of index numbers." But this does not, of course, meet the point that fluctuations in the values of different kinds of property can take place from all sorts of other causes. Nevertheless, supporters of the Rignano scheme might argue that in the first place, if one cannot in practice distinguish between "unearned increment" and saving, it is better to differentiate in favour of both rather than neither. In the second place, they might say, since our ultimate aim is the gradual transference of land and industrial capital to the State, an indirect effect of the tax will be to reduce the field for monopoly and speculation as sources of great fortunes. Thirdly, it is desirable that a man should invest his money wisely rather than unwisely, and our tax encourages him to do so. Loss due to bad luck no one can help, and loss due to bad judgment is the investor's own responsibility.

There is a certain force in these replies. But I doubt if there is sufficient force to convince people that a purely quantitative division of estates into two exclusive portions—inherited and saved—is really equitable and expedient. And much depends upon the taxpayer's psychological reactions. If the merit of the scheme lies in the fact that it encourages people

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to be industrious and thrifty, the necessities of practical administration must not make it appear that it favours rather the lucky and the unscrupulous.

§ 11. Some other practical difficulties of operating the Rignano principle must be mentioned. Gifts *inter vivos* would, of course, have to be treated on the same footing as inheritances; and it would be essential for the proper working of the scheme that they should not escape notice. In certain respects, and within certain limits, the incentive to conceal gifts *made* would not be so great under the Rignano scheme as under the existing forms of inheritance taxation, if equally heavy. For there would be a desire to make the difference between the total estate and the portion gratuitously received appear as large as possible. On the other hand, if, as under the minimum project, the tax is graded according to the amount of the estate as well as according to the proportion inherited, there will also be a strong desire, as now, to make the whole estate appear as small as possible. There will, also, clearly be a very strong incentive to conceal gifts *received*.

On the whole, it seems that with a heavy deferred tax on the Rignano principle, the danger of evasion would be greater than with a lighter immediate tax producing revenue of the same immediate value.¹ And the necessity for preventing evasion would be even greater, because the inequalities introduced by evasion would be even greater. The concealment of gifts would stultify the distinction between "earned" and "unearned" property.

The difficulties of tracing gifts *inter vivos* have been examined in the last chapter, where we concluded tentatively that they were not such as to make it impossible to operate, with reasonable efficiency and equity, a progressive tax on all large inheritances and gifts, at the time when they are received. But the difficulties seem to be greater in the case of the Rignano proposal, not only because of the considerations mentioned above, but also because the tax on gifts is deferred

¹ For actuarial relation between Deferred and Immediate taxation, in its bearing on revenue, see remarks above, pp. 258-9.

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till the death of the donor, and is intended, presumably, to be paid out of the estate left at death. Now it might quite frequently happen that the tax due on a man's death in respect of what he had received gratuitously exceeded the total estate passing to his executors. For example, I may receive £100,000 by way of inheritance and gift, on which a tax of, say, £75,000 is due to be paid on my death. If I accumulate another £100,000, and give away during my life-time £150,000, there remains at my death only £50,000 to pay the £75,000 due on my inheritance *plus* the tax due on the £100,000 accumulated. To extract the tax on the £150,000 gifts from the donees after perhaps an interval of twenty years might prove an impossible task. The only way to obviate this difficulty would be to insist on the settlement of all large gifts and inheritances so that they were not alienable during the beneficiary's life-time—in other words, to make it incumbent on a man to stick to what he has got while he is alive in order that the State may take its dues when he is dead. I deal later with practical proposals to this effect and with the merits and demerits of such a course.

§ 12. But even if we assume that all *gifts* are traceable, and that the difference between gratuitous property and fresh accumulation can be accurately assessed, we are faced with a theoretical drawback in the Rignano treatment of gifts. Of two persons with the same initial resources, the one who retains till his death all that he inherits and accumulates, can clearly accumulate more than the one who gives away large sums during life; yet the former's estate is taxed *pro rata* more lightly than the latter's. From the point of view of obtaining the maximum possible accumulation, this is no doubt all to the good. But, from the broader standpoint of increasing human welfare, it is clearly a disadvantage; for we have seen that gifts made during life are usually more beneficial to the recipients than inheritances received at a later age.

Hence, in general, one cannot escape the conclusion that, in a pure and undiluted form, Rignano's proposals, though intended to put a premium on industry and thrift, may at the

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same time encourage speculation and avarice, and, in discouraging the spendthrift, may put a penalty on generosity and altruism.

§ 13. With the object of rendering the operation of some form of the Rignano principle both efficient and equitable, certain legal restrictions on the conveyance of bequests and gifts have been suggested by English writers. In his first treatment of the subject, Dr. Dalton proposed as a possible solution of the practical difficulties of assessment, that all large inheritances and gifts should be settled in the hands of the Public Trustee, only the income on them being paid to the beneficiaries.¹ In this way, alienation of property—with its practical difficulties for the recorder of gifts and inheritances—and decumulation would be prevented. Personal possessions, capital in private businesses, and shares in highly speculative concerns were to be exempted from this treatment. This exemption and the practical difficulty of enforcing the settlement of large gifts might certainly reduce the effectiveness of the scheme, both as a means of preventing decumulation, and as a means of enabling gratuitous property to be accurately assessed.

But the chief objections are more fundamental. If the principal of all large gifts and inheritances is to be handed over to some department of State, and the private beneficiaries reduced to the position of mere *rentiers*, the scope of private enterprise in the management and investment of capital is going to be greatly curtailed. The State, therefore, must either be prepared beforehand to enlarge very greatly the scope of its responsibilities in the financing of industry and must have the machinery for doing so ready and in working order, or a large part of the country's capital will become immobilised in the hands of a department which cannot well do more than safeguard the principal and interest of the huge sums entrusted to it. The proposal is clearly undesirable and impracticable, unless it is part of some carefully planned scheme for the partial or complete nationalisation of industry and the

¹ *Inequality of Incomes*, Chap. X.

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Public Trustee's office is transformed into something quite different from what it is to-day. In the latter case, the merits of the proposal will depend largely on the merits of the larger scheme of which it forms a part. But as a method of enhancing the value of the Rignano principle in its application to Death Duties, it has, I think, no intrinsic merit. Moreover, the knowledge that the State would control the principal of all large inheritances is perhaps just as likely, in many cases, to discourage accumulation as the more equitable differentiation between inherited property and savings is likely to encourage it.

§ 14. In his evidence before the Colwyn Committee, Dr. Dalton proposed a modification of his original suggestion. A certain portion of each estate or inheritance, representing the special deferred tax on inherited property, is to be handed over to the State on the first passing of the property, and converted into an annuity giving the same income as before, but terminating on the death of the first beneficiary *or* after a certain fixed term of years. A similar proposal is made by H. D. Henderson in a recent pamphlet.¹ An Estate Duty is to be levied as now on each estate passing at death; and an additional "re-inheritance duty" is to be imposed, payable on the death of the legatees or inheritors, and graded according to the amount of the inheritance. A sum equivalent to the "re-inheritance duty" payable is to be handed over to the Government immediately, either in cash or certain agreed forms of securities, and the income on the principal of this sum will be paid to the beneficiaries during their life-time but no longer. It is important to notice that should the re-inheritance duty be graded up to 100 per cent., this proposal becomes equivalent, in respect of estates subject to that rate, to Dr. Dalton's original suggestion. The difference between the two proposals is, therefore, one of degree only. But, since it is not proposed that the "re-inheritance duty" should reach as high as 100 per cent., the practical difficulties of ad-

¹ *Inheritance and Inequality*. (New Way Series, pub. by *Daily News*.)

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ministration would certainly be much less.

There is a good deal to be said in favour of choosing annuities *for a fixed term* rather than for life. The latter alternative involves in effect a rapid progression of tax according to the age and length of life of the beneficiary, and this is both *prima facie* inequitable and undesirable on other grounds. The estate of the man who dies young leaving young children more in need of support is in effect taxed at a much higher rate than that of the long-lived parent who is able to launch his heirs on a career during his life-time. It might, indeed, be held that a tax deferred for an uncertain period of life would discourage accumulation less than a tax deferred for a definite period. But I doubt if this consideration outweighs the other objections to the former course.

The chief arguments in favour of the proposal—which apply almost equally whether the annuities are for a fixed term or for life—is that it obviates the great practical difficulties of the Rignano scheme while retaining its essential advantage. The inheritor who desired to provide for his children would be stimulated to save by the knowledge that, while a large part of his own inheritance would ultimately escheat to the State, the bulk of his *savings* would remain to benefit his children during the whole or a considerable part of their life-time.

The Colwyn Committee, however, condemn the proposal partly on the grounds that a reduced capital sum is more likely to lead to thrift on the part of inheritors than conversion to annuity which involves no reduction of income during the beneficiaries' life-time.¹ But they do not seem to realise that this objection might be raised also to the original Rignano scheme. An immediate tax, actuarially equivalent to the deferred taxes proposed in effect by Rignano, would also perhaps stimulate greater economy on the part of some inheritors, particularly those who have no children to provide for. The only theoretical difference—i.e. apart from questions of administration—between Dr. Dalton's scheme and Rignano's "minimum" project is that, in the former case, the actuarial

¹ For their other objection, see paras. 930-4; and p. 272 below.

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equivalence of the deferred tax to an immediate tax is more obvious, and that, if the annuities are for a fixed term, the grading of the tax can be more equitable.

In the case of Dr. Dalton's scheme, there is no suggestion that the inheritor should be prevented from capitalising his annuity, if he wishes to do so, or in other words from converting a deferred tax into an immediate tax. There seems, indeed, every reason why he should not be prevented from doing so. The only reason for having a deferred instead of an immediate tax is in order to ease the apparent burden of the tax for the man who is saving for the sake of his heirs. But, in certain cases, he might prefer the immediate to the deferred tax, since the latter involves transferring control of a larger part of the property from his heirs to the State.

§ 15. Hence a further modification of Dr. Dalton's proposal presents itself. I have previously suggested that the existing Estate Duties should be supplemented by a progressive tax on all considerable inheritances and gifts, in place of the existing Legacy and Succession Duties, and that the latter tax should be paid so far as possible when the inheritance or gift was received. It was argued that such a tax is not likely to discourage work and saving until the rate of progression becomes very steep.¹ It is when the rates become relatively very high that some application of the Dalton-Rignano proposal seems desirable, in the interests of productivity as well as of smooth management, in order to make saving appear more attractive to parents who own large properties and to prevent decumulation. It might be suggested therefore, that, in cases where the rates of inheritance tax are high, a certain portion of the tax should be payable, at the will of either testator or heir, not immediately but after a certain fixed term of years—say, twenty years. If the tax is paid at the end of that period, the sum payable would not of course be the same as in the case of immediate payment, but would have accrued at compound interest.

Thus, suppose, for example, that the inheritance tax is

¹ See Chap. IX.

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graded up to 60 per cent. on inheritances of £200,000, that all taxation in excess of 40 per cent. may be deferred for twenty years, and that the rate of interest on good security is $4\frac{1}{2}$ per cent. Then the heir to an inheritance of £200,000 can *either* sacrifice an immediate £120,000 in taxation, thus reducing his property to £80,000; *or*, if he prefers (or if his predecessor has willed it), he can pay the State £80,000 down and £96,000¹ in twenty years' time, in which case he is able to enjoy £120,000 for twenty years, when, *unless he has accumulated during the interval* or values have appreciated, his property will suddenly shrink to not more than £24,000.

In the latter case, the State would, of course, have to require sufficient securities to be deposited with it, as cover for the amount of the deferred tax (in this example, £96,000), just as a bank requires security for an overdraft. There need be no actual conversion to an annuity; and facilities might be given to the inheritor, with the agreement of the bank of deposit or State official concerned, to alter the securities deposited from time to time. The sole concern of the State would be that the "cover" deposited was sufficient for the amount of the tax ultimately payable.

This proposal is by no means sensational, but it appears to be no less adequate for the purpose intended than other modifications of the Rignano plan that have been suggested in the interests of efficient and equitable administration, and is perhaps more easily practicable as things now are. A possible administrative objection, however—the force of which I am not competent to judge—is that it is bad policy to give options to taxpayers in their financial dealings with Government.

§ 16. There remains one important technical problem, of particular significance in connection with any system of deferred taxation on Rignano's lines, namely the forms which the payments of the tax may take.

At the present time Death Duties are payable in cash or in

¹ £100 accumulating for twenty years at $4\frac{1}{2}$ per cent. becomes £241.

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most forms of War Loan,¹ and, in certain cases, at the discretion of the Commissioners of Inland Revenue, *realty* also will be accepted.² Since cash and War Loan together form between 18 and 20 per cent. on the average of the larger estates, it is probable that, at the present rates, Death Duties can be paid quite conveniently, in the majority of cases, without the necessity of selling any large amount of property for cash.³ But there seems no good reason for not extending the privilege of paying in War Loan to other sorts of securities—and certainly to all Government and Municipal securities. If the rates of the Death Duties were raised at all considerably,

¹ By Sec. 34, Finance Act, 1917, and Sec. 3 (2) of War Loan Act, 1919 and subsequent Treasury regulations, the following securities are accepted in payment of Death Duties, provided they have not been bought (except in exchange for other War Loan holdings) within six months of death:—4 per cent. War Loan 1929–42, 5 per cent. War Loan 1929–47, 4 per cent. and 5 per cent. N.W.B.'s 1929, 4 per cent. Funding Loan 1960–90, and 4 per cent. Victory Bonds.

² By Sec. 56, Finance Act, 1910.

³ See Table at end of Chapter. There is no space here to consider the alleged hardships or serious inconvenience suffered by inheritors of land and private businesses in paying Death Duties. That cases of real hardship are rare and do not, either individually or in the aggregate, constitute a more serious objection to the Death Duties than to an Income Tax is shown clearly by the results of the investigation of the Colwyn Committee. (See Maj. Rept., paras. 500–12.) That Committee agreed with the Inland Revenue evidence that the "Estate Duty does not appear to be a major factor tending towards the disintegration of private businesses." A sample of 373 estates of over £10,000 in value was analysed; only in three cases could the Duty not be paid out of *non-trade* assets. As regards the agricultural landowner—it was found that only 2 per cent. of estates over £15,000 in value contained over 50 per cent. of agricultural land. The Committee, in the Majority Report, came "reluctantly" to the conclusion that to give special relief from the Duty to agricultural estates was "unjustifiable." In fact, the agricultural landowner already "occupies a privileged position" with regard to Death Duties, since, by the Finance Act, 1925 (Sec. 23 (1)), agricultural land is subject to a lower rate of Estate Duty, and by the Finance Act, 1910 (Sec. 61 (5)) woodland is relieved from duty and left out of the assessment, until the timber is felled and sold. (See note on pp: 235–6, Chap. 1X.)

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such an extension of facilities would make for the smoother working of the tax; and, as we have seen, if a deferred tax is introduced, it would be necessary for the Government to accept securities as "cover," which would ultimately be retained as part or whole payment of the tax.

One of the administrative objections that has been urged against adaptations of the Rignano scheme is that they would involve transfers of property, other than cash, to the State, which would thus be saddled with a miscellaneous collection of "securities," much of which it could not sell except at a loss. Others, on the other hand, have argued that securities thus transferred ought to be retained by the State as capital and not sold in exchange for a cash revenue. But, whether Government decides to treat the proceeds of Death Duties as revenue, or as a means of increasing assets or reducing liabilities (i.e. the National Debt), the objection to payments other than in cash or War Loan seems unreasonable. All Government securities and the great bulk of investments in joint-stock companies are easily negotiable, whether on the behalf of the State or the private individual. To argue that the State would lose money by selling what the individual would otherwise have to sell is to suggest that, contrary to declared intention, securities are over-valued for Death Duty purposes. It might rather be suggested that a competent financier acting on behalf of Government ought to be able to negotiate Government investments to the better advantage of the community than the private executor or inheritor.

Mr. H. C. Scott (of the Estate Duty Office), in a recent paper on the practical aspects of the Rignano scheme, suggested that if payment of the Duty in stocks and shares is permitted, executors will attempt to "palm off" on the Government the more insecure types of securities, and those which they consider of least value to the private beneficiaries.¹ He propounded the dilemma that, while "the State must obviously have the right to reject any asset offered," "it seems only

¹ *Stat. Jnl.*, March 1926: *Some Administrative Aspects of the Rignano Scheme of Inheritance Taxation.*

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just to the taxpayer to leave him to choose what assets he will offer in payment"; and he added that the authorities, to whom assets were transferred, would be bound to leave alone any form of investment that was at all risky or that required expert knowledge. But a compromise does not appear insuperable. Nor can one accept as valid in all circumstances the theory that Government should not accept speculative assets. Provided that the department entrusted with the handling of the assets transferred is guided in its negotiations by a competent business adviser, it is at least as likely to gain as to lose by doing so. Why should the State, in its capacity as legatee, be considered as necessarily more incapable of handling investments to its own advantage than the private individual or than other beneficiaries, such as universities, hospitals, and other institutions?

I suggest, at any rate, as an immediately practicable proposition, that any extension of the Death Duties should be accompanied by an extension of the forms in which the duty may be paid, so as to include at least all "gilt-edged" and "trustee" securities.¹

§ 17. Since, as is now generally agreed, Death Duties do not involve a reduction of existing capital, and do not necessarily restrict future capital more than other sorts of taxes, similar in amount and graduation, there is no fundamental reason why sums raised in this way should be specially earmarked by the State as capital.² Nor are Death Duties necessarily more efficacious than Income Taxes as a means of financing the "nationalisation" of industries. Nevertheless, as I have previously emphasised, heavy taxation of those most able to pay, in whatever form, is almost certain to reduce the volume of private saving; and measures, which effectively

¹ Cash and Government Securities formed about 27 per cent. of large estates passing in 1925-6, and other Stock Exchange securities another 35 to 40 per cent. Cash, Government Stock, and fixed interest shares and debentures probably formed about half of the total estates over £10,000. See Table at end of Chapter.

² See Colwyn Committee Report, paras. 541-4. Min. Rept., paras. 254-6.

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reduce the existing inequality of property and incomes, must necessarily throw upon corporations and the State a greater responsibility than hitherto for the maintenance and increase of the community's material equipment. Hence, there is much to be said in favour of definitely "ear-marking" for capital purposes part of the proceeds of taxes, which are imposed for other reasons beyond those of immediate fiscal necessity; and inheritance taxes, imposed, not merely with the object of raising a larger portion of necessary revenue in an unobjectionable manner, but with the deliberate aim of removing inequalities that are neither justifiable nor expedient, come within that category.

Again, Death Duties, particularly when they are paid "in kind," seem to lend themselves more obviously than other taxes to such "ear-marking" as permanent Government investments. Moreover, when they are steeply graduated, so as to influence effectively the distribution of property, ultimately the same rates are likely to produce a diminishing revenue, unless part of the proceeds has been re-invested as State capital and is earning an additional income.

What has been said in favour of "ear-marking" part or all proceeds of inheritance taxes for capital purposes applies equally, indeed, to their employment for the reduction of the National Debt. For the capital of the State, as of the individual, can be increased as well by reducing liabilities as by increasing assets. There is no financial difference in the State's position, either as a capitalist or provider of social services, if it invests £1,000 millions so as to bring in, say, £50 millions a year additional revenue, or wipes out £1,000 millions of debt with an interest charge of £50 millions, and employs the latter sum for other purposes. But there is, of course, an important difference, if, in the first case, the revenue on the State's investment is treated as an additional fund for social expenditure or for re-investment, and, in the latter case, the State chooses to reduce its revenue by the amount of the interest charge on the annulled debt.

But, in general, the best method of employing the proceeds

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of a tax is a question that can only be settled by reference to the circumstances of the time, and there can be no fundamental reason for demanding that, in all circumstances, the whole or a fixed portion of the proceeds must be devoted to the provision of fresh capital. It might well be more reasonable to demand in the present circumstances that a fixed portion should be devoted to improving health and education. All that is fundamental is that the community should realise, in Dr. Dalton's words, "both the importance of an increase of material capital, and the aggravation of inequality which results from leaving the greater part of this increase to be provided by a small wealthy class."¹

¹ *Inequality of Incomes*, p. 343.

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APPENDIX TO CHAPTER XI

COMPOSITION OF ESTATES PAYING ESTATE DUTY, 1925-6. GREAT BRITAIN

	<i>All Estates over £100. %</i>	<i>Range of Estates.</i>			
		<i>£100 to £10,000. %</i>	<i>£10,000 to £50,000. %</i>	<i>£50,000 to £250,000. %</i>	<i>Over £250,000. %</i>
	<i>Per</i>	<i>cent. of</i>	<i>Gross Capital Value.</i>		
Cash in House and at Bank . . .	6.64	11.03	5.21	4.22	3.42
War Loans . . .	13.97	13.5	13.0	15.2	15.0
Other Govt. and Municipal Securities . .	7.76	5.76	9.27	8.48	8.33
Total Cash and Gilt-edged Securities . .	28.37	30.3	27.5	27.9	26.75
Stocks and Shares . .	30.48	17.8	34.8	41.5	34.2
Mortgages, Bonds, Debts, etc., due to Deceased . . .	7.71	8.90	7.99	6.74	6.12
Land (with Minerals, Ground Rents, etc.) . .	6.64	3.51	3.85	7.38	16.8
House Property . .	14.74	23.3	13.05	8.30	8.84
Trade Assets * . .	3.60	4.53	3.85	2.25	3.05
Household Goods . .	2.47	3.28	2.14	2.26	1.68
Insurance Policies . .	3.09	5.17	2.68	2.00	1.05
Other Property . .	2.90	3.34	4.09	1.77	1.48
	100.00	100.00	100.00	100.00	100.00
TOTAL, Gross C.V. £ millions . .	495.5	165.9	139.1	109.2	81.4

Nearly *one-fifth* of the larger estates in Cash and War Loans (19%).
Between *one-quarter* and *three-tenths* of the larger estates in Cash and Gilt-edged (Government) Securities (20%).

Between *three-fifths* and *two-thirds* of the larger estates in Cash and easily marketable Securities (61 to 69%).

About 70% of the larger estates in Cash and easily marketable Securities and Mortgages, etc.

Less than *one-tenth* of the larger estates in house property.

About *one-twentieth* of the larger estates in household goods and Trade Assets.

* **TRADE ASSETS** include, in addition to private business assets, shares in ships and partnerships.

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- (b) On the Death Duties and Inheritance Taxation (theoretical and administrative aspects).
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